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The world economy at the beginning of 1998

Report of the Secretary-General

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I. The global situation

1. After the weak start to the 1990s, the world economy moved towards a "cruising speed" of 3 per cent growth a year, beginning in 1994. World output is estimated to have grown more than 3 per cent in 1997 and a further year of 3 per cent growth is forecast for 1998 (see table 1).[1] The financial turmoil that has spread out from the emerging market economies of Asia is expected to result in an inflection in world economic growth, with the slowdown in the more seriously affected countries and its impact on their major trading partners being partially offset by strengthened momentum elsewhere. Nevertheless, the unknown duration and ramifications of the huge swing in financial market sentiments in 1997 make the overall economic outlook particularly cloudy at this time.

2. The continued dynamism of world trade, which has been so important in the more open economic strategies being pursued globally, will be crucial to a successful recovery from the current setbacks. The volume of world trade staged a major recovery from its sharp slowdown in 1996, with estimated growth of 9.4 per cent in 1997. Growth of 7 per cent is forecast for 1998 (see table A.8).

3. Among the developed economies, the major features of 1997 were the relative weakness of the Japanese and strength of the United States economies. The efforts of member countries of the European Union (EU) to meet the macroeconomic criteria for entry into the Economic and Monetary Union (EMU), in particular regarding budget deficits, have been a constraint on recovery and an added burden on unemployment. Moreover, the uncertainty surrounding the start of EMU — and the associated exchange rates, interest rates and macroeconomic policies — has caused some hesitation with regard to investment. As 1997 ended, however, the fact that it seemed more certain EMU would start on time and with a large number of participating countries reduce these uncertainties.

4. In the developing world, aggregate growth of gross domestic product (GDP) was almost 6 per cent in 1997 but depended less than previously on the dynamism of Eastern and Southern Asia (see table A.6). While the regional growth rates of Latin America and the Caribbean and Western Asia each exceeded 5 per cent, that of Africa slipped to only 3 per cent. Growth is forecast to pick up in Africa in 1998, albeit with a growth rate of only 4 per cent, but slower growth is foreseen in each of the other major regions, yielding an overall average growth rate of 5 per cent. For many countries, 1998 is still, or again, a period of policy adjustment. The expectation — one could say, the hope — is that when the adjustments are completed, more rapid rates of growth should be realized on a sustained basis.

5. In the transition economies, 1997 might have marked a watershed year. At last, these economies as a group have begun to grow. Growth prospects in many of them are still fragile, the Russian Federation being an important case in point, but they are generally positive. Certainly, had there not been widespread evidence of economic growth this late in the decade, confidence in the transition path itself would have been shaken.

6. Despite the favourable economic growth developments, there have been a number of negative developments. The sharp economic slowdown in several developing Asian economies as a result of their financial crises is one major concern; another is the fact of how hard it has been for Japan to overcome its own financial-sector difficulties and begin a sustained economic expansion. A third concern is the persisting high unemployment rates in many economies throughout the world, even in those that experienced a resumption or continuation of significant economic expansion. Unemployment is a particularly salient issue in much of Western Europe, especially when set against strong employment gains in some developed economies.

A. Austerity is not the answer

7. Something appears to be amiss in the international economy. One indication is that the international community found it necessary to mobilize over $100 billion in less than six months for financial rescue packages, all for only three "emerging market" countries. Another indication is that many countries saw their exchange rates challenged by market forces, to which several succumbed, but only some of the countries were considered to have had unsustainable macroeconomic situations before the crisis. A third indication is that even when the events that precipitate exchange-rate crisis are excesses in the financial sector, it is the economy as a whole that ends up burdened with a period of austerity by the adjustment that follows.

1. The systemic question

8. While economists have theoretical models and rules of thumb about what budgetary and external deficits are unsustainable, the short-run reality is that it is whatever the markets or official creditors will finance — but nothing more — that is sustainable. Thus, a current-account deficit of 5

Table 1
Growth of world output,[a] 1981-1998
(Annual percentage change)

	1981-1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997[b]*	*1998[c]*
World	2.8	0.8	1.8	1.4	3.0	2.5	3.0	3.2	3
Developed economies	2.9	0.7	1.6	0.8	2.7	2.1	2.4	2.6	2½
Economies in transition[d]	1.6	-8.1	-13.0	-9.2	-7.0	-1.1	-0.3	1.7	3¼
Developing economies	2.4	3.3	5.1	5.2	5.6	4.6	5.7	5.7	5
Memorandum items									
Number of countries with rising per capita output	106	70	75	67	96	107	120	120	131
Number of countries in sample	127	128	142	143	143	143	143	143	143
World output growth with PPP-based weights[e]	3.1	1.2	2.2	2.4	3.7	3.4	3.8	4.1	4

Source:
Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA).

[a] Calculated as a weighted average of individual country growth rates of domestic product (GDP), where weights are based on GDP in 1993 prices and exchange rates.

[b] Preliminary estimates.

[c] Forecast, based in part on Project LINK (International research Group of Econometric Model Builders, with headquarters at the United Nations Secretariat.

[d] Based on reported GDP, which underestimates activity in several countries.

[e] Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars (see introduction to statistical annex of *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97.II.C.1 and corrigenda)).

per cent of GDP may be sustainable today while the same deficit may be unsustainable tomorrow if markets sour on the country. Markets can be forgiving of many policy excesses on one day and forgive none the next. A country with "sound fundamentals" but some weakness in the financial sector can face just such a loss of confidence of financial markets.

9. International financial markets move large amounts of funds on the basis of information about the future which is inherently uncertain. They may ignore burgeoning danger signals in the blind belief that the danger will pass, and may then remove their funds, acting on no other information than that another investor has begun to do so. This is the nature of the system: some international financial flows are inherently unpredictable and depend in an important way on the intangible psychological factor called "confidence", and some developing countries have become excessively vulnerable to those flows and thus to the serious consequences of a loss of confidence.

10. The strategy behind the large international rescue programmes for the Asian countries in 1997 is thus to regain as quickly as possible the confidence that the markets have lost. This is to be done through a dramatic demonstration of commitment to reform, entailing sharp fiscal, monetary and exchange-rate corrections which the international community supports with large-scale financial support. The same strategy was applied in Mexico and Argentina in 1995 with success in the sense that market confidence was quickly restored, albeit at the cost of very steep — if short-lived —

economic contractions and substantial additions to unemployment.

11. It is essential to restore confidence quickly and, in the current model, a common package of measures is assumed to be required to do so. Whatever event or policy failing precipitates the financial crisis, all adjusting countries follow a similar corrective recipe. A country with a large current-account deficit but a small budget deficit and a low level of government debt may adopt an adjustment programme that focuses as much on returning the government deficit to a surplus as on reducing the external imbalance. While the government in such a case might want to take the opportunity offered by the crisis to reallocate spending away from socially and developmentally wasteful activities, other expenditures, being essential, might well be increased. The need is to strengthen public — and also private — management. Austerity, per se, and in particular public sector retrenchment, is not the cure for all economic problems. It is not clear that the financial markets understand this.

12. Another aspect of the international strategy is that it also aims at stopping the spread of the disease. As the local financial institutions are frequently large borrowers from international banks and markets, the disease spreads risks to the source institutions as well. Attention for the moment has mainly focused on Japanese institutions, some of which have their own deep weaknesses. The possibility of transmitting developing-country crises to developed-country financial systems has not been entertained so seriously since the early 1980s when the world's money centre banks were financially exposed to heavily indebted developing countries. It was essential for the current strategy to address this new threat to the international financial system itself.

13. The aim of the strategy, in other words, includes both assisting countries in overcoming domestic financial crises and safeguarding the system of large-scale international financial flows. In the middle of the crisis, when several countries have lost access to finance and more are endangered, no other approach suggests itself. However, it seems that deeper, systemic questions about the varieties of international finance and how countries insert themselves into the global financial system warrant revisiting in the light of recent events.

2. The immediate question

14. One dimension of adjustment that is required by the withdrawal of external finance is to reduce any trade deficit that the country may have. Import growth is curtailed by exchange-rate depreciation and as real incomes and demand are squeezed by inflation and restrictive policy measures. However, growing economies need increased imports. In order to achieve this, rapid increases in exports are required to generate increases in foreign exchange earnings, both to purchase imports and to service external debt.

15. In this light, some fears have been raised that exports from adjusting countries will surge and that adjustment will come at the expense of workers in developed countries who will not be able to compete with the new low-cost imports. This fear seems exaggerated, especially in the developed countries in which total employment has been growing strongly. Nonetheless, individual import-competing sectors may feel more competition, as happens whenever exchange rates of foreign suppliers change to correct imbalances. If, however, such fears gathered political momentum, a developed country might be led to raise protectionist barriers to these imports. Not only would this make the developing-country adjustment more difficult and prolong the period of severe limitations on its imports, but it would only postpone — not prevent — the contraction of a declining industry. Always and inevitably, workers need to be transferred from declining and no-longer-competitive sectors to growing ones. It is the proper role of government to make that transition as smooth, quick and socially non-disruptive as possible, not to avert such a responsibility by adopting short-term palliatives.

16. Another global dimension of policy in the major developed economies stands in clear relief with respect to the present crisis. If inflation in those countries should begin to rise, monetary authorities would be tempted to raise interest rates quickly in order to slow the growth of demand. In the developing countries, either the government would match the interest rate increase or the exchange rate would fall anew as investors sought out the higher foreign interest earnings. In either case, a new contractionary pressure would be put on the developing country; in addition, it would raise the country's foreign debt-servicing burden. The developing country's response would be to seek all the harder to increase exports and cut imports further, including those from the developed countries. There are thus both global and domestic considerations at play today in respect of setting monetary policy in the major economies.

17. There is, however, one fortuitous aspect added on to this problem at the present time. The recent weakness of inflation and reduction of inflationary expectations in the major economies provide their policy makers with a new degree of freedom in setting monetary policy. Policy makers can now hold off tightening interest rates when they fear inflation is around the corner and wait until they turn that corner. If policy makers are uncertain about the need to

tighten as the year 1998 progresses, the global dimension of their policy decisions adds weight to the case for patience.

B. International trade

18. Part and parcel of the estimates and forecasts of economic activity in the world's economies discussed below is the survey of the behaviour of international trade and financial flows. While international financing proved to be as volatile as it has been abundant, international trade continued on a generally upward path, particularly as concerns international trade in manufactures. Commodity trade, as reflected in price developments, has been less buoyant and more volatile.

19. As the developed countries account for more than two thirds of world trade, the more rapid growth of trade in 1997 and the slower growth forecast for 1998 largely reflect changes in the growth of their trade (see table A.8). The 1997 surge in world trade was very much occasioned by the double-digit growth of imports of the United States of America, fed by the strong growth of incomes and the appreciation, on average, of the dollar exchange rate. There was also some modest pick-up in imports in Japan and Western Europe (see table A.8). In addition, import volume is estimated to have grown about 10 per cent or more in Canada and Australia, in several Latin American countries (in particular, Argentina, Brazil, Mexico and Venezuela), in Poland and in Turkey. Asian economies also provided their traditionally strong intake of imports, albeit mainly in the first half of the year for East Asian countries, while African imports grew at a moderate pace.[2]

20. Exports from the United States swelled to meet the greater demand in several of the above-mentioned countries and regions. Japanese export volume rose strongly, with the United States being a particularly large market, and an important destination as well for European, Asian and Latin American exports.

21. In 1998, the growth of world import demand is forecast to be more evenly spread, with the United States import surge slowing, while Japan's import growth slowly increases. Slower import growth in East Asia and Latin America will not be matched by more sharply rising imports into China and India. Coupled with slower increase in imports in Africa, the growth of developing-country imports is forecast to decelerate to a rate of 7¾ per cent.

22. This import demand forecast provides the framework for export expectations in 1998. The very dramatic export slowdown forecast for Japan reflects developments in its large markets in the adjusting Asian economies and in trans-Pacific destinations where import growth is also slowing. Both United States and European exports will be subject to similar considerations. At the same time, the sharp currency devaluations in East Asian countries and their export imperatives are expected to help them increase export sales at least outside the region.

23. For countries that are dependent on international commodity prices, 1997 was not a generous year, particularly for prices denominated in United States dollars. The dollar index of the prices of non-fuel commodities exported by developing countries fell by almost 1 per cent in the first three quarters of 1997 (see table A.9). However, since the exchange rate of the dollar rose against other major currencies, its general purchasing power increased. One way to account for this effect in evaluating commodity price changes is to use a basket of currencies. Measured in special drawing rights (SDRs), the comparable commodity price index increased by 3.6 per cent.

24. The most dramatic price increases in 1997 were in tropical beverages. Coffee and tea prices rose sharply in the first half of the year because of strong global demand and supply difficulties in major producing countries in Latin America. Cocoa prices increased more moderately. Although the latter may continue to increase in 1998, the other main beverage prices are expected to give back most of their price gains. In the minerals and metals group, prices of aluminium and copper rose after large declines in 1996, while prices of zinc rose sharply as a result of unexpected strong demand and tight supplies in industrialized countries. Copper prices are expected to fall in 1998, with little change in other minerals and metals. The general weakening of other commodity prices in 1997 is expected to continue in 1998, although the forecast is surrounded by particular uncertainty owing to the possible disruption of global agricultural production by the El Niño weather pattern.

25. Average international prices of crude petroleum declined by about 8 per cent in 1997, averaging about $18.50 a barrel. Oil markets are in a delicate balance, as the winter season approaches in the northern hemisphere. While oil supplies reached an all-time high and are still expanding, they did not keep up with the pace in demand growth. As a result, idle and available production capacity worldwide is at a very low level. Therefore, any slight disruption in supplies might trigger a new round of price hikes.

26. The continuing export of limited amounts of oil from Iraq is not expected to push down prices significantly, particularly in the next few months. Barring major supply disruptions and assuming Iraq continues to export oil as in

1997, oil prices in 1998 are expected to remain within a range of $17 to $20 a barrel, averaging about $18 a barrel for the year.

II. Developed economies: growth and low inflation

27. The recent economic performance of the developed economies has largely been a source of satisfaction to policy makers. In most countries, economic growth persisted or strengthened, while there has been little inflation. There were, however, two important macroeconomic concerns. The first was the limited progress that has been made in reducing excessive unemployment, especially in Europe, and the second was the difficulty that Japan has had in returning to solid and sustained economic growth. In both cases, macroeconomic and structural policy needs have been central considerations.

28. Economic growth overall in the developed countries is proceeding at a relatively steady rate, with GDP having risen by 3 per cent or more in 11 countries in 1997 (Australia, Canada, Finland, Greece, Ireland, Malta, the Netherlands, Portugal, Spain, the United Kingdom of Great Britain and Northern Ireland and the United States) and having fallen in none. Four countries are forecast to join the former group in 1998 (France, Denmark, New Zealand and Sweden), while the United Kingdom and the United States are expected to see their growth rates drop to about 2.5 per cent (see table A.1). In the latter two countries, however, substantial strides have been made in reducing unemployment, which is expected to continue to ease in 1998 despite the slower output growth (see table A.4).

29. The low overall inflation rate is considered remarkable so many years into the expansionary phase of the business cycle of several countries. Consumer prices in the developed economies rose only 2 per cent on average in 1997. The last time the average inflation rate of these countries was lower than this was in 1961. The average is forecast to remain at 2 per cent in 1998 (see table A.3). The low inflation is primarily the result of strong and sustained policy commitments to price stability, although productivity advances, in part a response to increased global competition, also appear to have helped to restrain price increases.

30. The primary factor behind recent economic growth has been stimulative financial conditions. Interest rates have eased significantly over the past two years, helping to offset the impact of ongoing fiscal consolidation. In addition, exchange-rate movements have been generally consistent with the cyclical positions of major economies. That is to say, the United States dollar and the pound sterling strengthened in foreign exchange markets in 1997, providing some protection against economic overheating in the United Kingdom and the United States. Meanwhile, the depreciation of the deutsche mark and the yen helped boost economic growth in continental Europe and prevented a more severe economic situation from developing in Japan.

A. Persisting unemployment

31. The continuing economic expansion is not expected to have more than a modest impact on unemployment in 1998. EU, in particular, is expected to see its sixth consecutive year of double-digit unemployment (see table A.4). Unemployment rates in France, Germany and Italy are close to post-Second World War highs; and despite stronger growth prospects, only marginal improvements are expected, as much of the unemployment is structural in nature. Moreover, export-led growth, especially as it is occurring in Germany and Italy, while modestly reducing overall unemployment, may further exacerbate regional disparities in joblessness owing to the less-developed state of export industries in less-developed regions.

32. EU leaders held a special jobs summit on 21 November 1997 in Luxembourg, where they adopted a new strategy to tackle unemployment. At the core of the strategy are common guidelines, or targets, for policy measures for job creation. The guidelines are to be incorporated into national action plans that will be subject to annual peer review, through much the same process as was successfully used to stimulate reduction of budget deficits and inflation in preparation for EMU. The national action plans are to be presented to the EU summit in Cardiff in June 1998 and the first review is to be held in Vienna six months later. In addition, the European Investment Bank will raise an extra $11.4 billion over the next three years to support the creation and growth of small and medium-sized enterprises, and new technology ventures, and to finance job-intensive projects in service sectors. According to the European Commission, the above measures combined with stronger economic growth could help create 12 million new jobs within five years and cut the EU unemployment rate to approximately 7 per cent.

33. The EU programme is an important initiative. Some developed countries have realized unemployment rates below 5 per cent without significant inflationary pressures building, suggesting that substantial and sustained reductions in unemployment in EU and other developed countries can

be achieved. Old truths about how much unemployment is "needed" in any particular economy for macroeconomic stability seem far less reliable today. Policy strategies that tighten monetary conditions in anticipation of inflation and before price increases begin to rise may be making costly assumptions about economic processes that no longer work in the way they were once thought to. Each case must be studied in its own national detail.

B. Economic weakness in Japan

34. Japan is the second largest economy in the world and a major trading nation which had an average growth rate of almost 4 per cent a year in the 1980s; however, it has now undergone six years of economic growth averaging only 1 per cent a year. Economic recovery finally seemed to gather steam in 1996, but it was cut short in 1997. Japan is also a major creditor nation and a key part of the global financial system. However, its domestic financial structure has been rocked by excessively risky positions taken during the "bubble economy" of the late 1980s at home and, more recently, abroad. Also, many loans that were made when it was assumed buoyant economic growth would return were perceived to be less risky than they turned out to be as a result of the protracted economic malaise. While the Japanese financial system is not in danger of collapse, a period of financial restructuring and constrained lending will perforce remain in the agenda.

35. Japan is forecast to enter a weak recovery path in 1998, although even this is uncertain. First, that the adjustment in some important trading partners in Asia may be more severe than currently foreseen would further depress Japanese exports. Second, further deterioration of the balance sheets of commercial banks, if additional domestic or external problems emerge, may lead to even more cautious lending behaviour than at present. In this event, small and medium-sized companies, which have already faced difficulties in obtaining loans, would be further squeezed. Third, if consumer spending is more conservative than expected, large as well as small companies may decide to make further cuts in their investment plans.

36. Macroeconomic policy-making in this environment has been extremely difficult. The Bank of Japan continues to maintain an easy money policy, with the official discount rate at the record low level of 0.5 per cent. This has not been effective, however, in raising growth — the extra liquidity created by low interest rates has not been channelled into real domestic economic activities, but has sought higher yields in other countries. To revive the economy, it appears that some form of fiscal stimulus must be employed — tax cuts, extra public spending or a combination of both. Yet concern about keeping the level of public debt within manageable limits has pushed the Government to take a tight fiscal stance. This was the context in which the Japanese Government unveiled a package of 120 measures on 18 November 1997 that centred on structural changes, such as deregulation in telecommunications, the financial industry and transport. The property market would be boosted by lifting regulations on land use and permitting issuance of securities linked to real estate. The Government noted that this was not a fiscal stimulus package in the conventional sense, but argued that it would nevertheless add significantly to growth in the medium to long term.

37. Then, only a few days later, spreading crises in the financial sector seemed finally to convince the Government that it had to use "public money" in some form to rescue the troubled financial industry. While maintaining its target to cut the combined fiscal deficit of central and local governments to 3 per cent of GDP by the year 2003, the Government was seeking in early December to develop a new rescue package and the means to finance it. Market psychology, which had been battered by the developments in the second half of 1997, was looking to be boosted by the adoption of more effective policies. The question of a tax cut had been raised in various circles. As argued in *World Economic and Social Survey, 1997*,[3] Governments need to be sensitive to the fact that excessive enthusiasm for the quick reduction of budget deficits can have high economic and social cost and may not even be required for the fiscal probity that is indeed necessary in the medium run.

C. Sources of economic growth

38. Japan was the main — albeit, not the only — exception to rising economic growth rates in the developed countries in 1997 (see table A.1 for estimates and forecasts for each country). The main source of Japan's 1997 slowdown was the virtual pause in private consumption growth, owing in part to the consumption tax hike in April 1997 and the elimination of special tax exemptions. Consumers also had to absorb increases in payments to the public medical system. Taken together, these measures are estimated to have reduced spending by an amount equivalent to about 1.8 per cent of GDP. In addition, consumer confidence was further battered by the series of collapses of prominent financial firms. Private non-residential investment began the year strongly, but was negatively affected by weak consumption. Meanwhile, several public investment

programmes were completed. The one stimulus to growth in Japan in 1997 was the external sector, owing to the yen's depreciation against the dollar, and the strong growth of demand in other developed economies and, until mid-year, in East Asian countries. An export surge has caused Japan's trade surplus to rise once again (see table A.8).

39. In the United States, in contrast, a strong job market has fuelled a surge in consumer spending on durable goods and housing. Furthermore, after a slowdown in late 1996, business investment rebounded strongly during the year, propelled by the faster pace of economic activity, tight production capacity and attractive financing. As was not the case in the earlier years of the recovery, capital spending has been more evenly spread between high-tech equipment and more traditional machinery as well as new structures. In 1998, however, the underlying business cycle dynamic is likely to begin to lose some momentum, as investment growth starts to slow. Consumer demand may stay strong for a longer period as significant labour-market weakening is unlikely for quite some time. However, recent equity market turbulence may prompt some consumers to rein in spending. Also, the turmoil in South-East Asia will likely hurt United States exports to that region.

40. Thus, despite vibrant income growth and a strong labour market, the low United States inflation rate has not been reversed thus far. This benign inflation environment amid a strong and long-lasting economic expansion is quite unusual. Even with a pick-up in the growth of wages, unit labour costs (which make up two thirds of the cost of production) have been rising at an annual rate of only 1.3 per cent, about equal to the increase in productivity. The declining prices of imports, owing to the strength of the dollar, have also contributed to keeping inflation low. In this environment, it is not to be expected that United States monetary policy would tighten significantly in 1998. In addition, the federal fiscal deficit virtually disappeared in 1997, owing in part to the growth-induced surge in tax revenues. Fiscal policy will not need to tighten further in the short run; indeed, certain tax reductions take effect in 1998.

41. Since mid-1996 the economy of Canada has been expanding at well above a 3 per cent annual rate, with no signs of deceleration in sight. Economic activity has been underpinned by the lowest interest rates in over 30 years, despite gradual steps to raise them in 1997, and strong external demand. Even with the strong growth, inflation remains below 2 per cent, owing to still relatively large excess capacity in the economy. Nevertheless, some additional though moderate monetary tightening can be expected in 1998. At the same time, the strong growth is helping the Government to meet its deficit reduction targets, allowing fiscal policy to become less restrictive. So far, however, the stronger growth has led to only a modest and slow decline in the unemployment rate, partly because of the return of large numbers of discouraged workers to the labour market.

42. The economy of Australia appears to be accelerating towards growth of almost 4 per cent in 1998. Private investment, fuelled by lower interest rates, is the main engine of growth. Tighter fiscal policy constrained the growth of economic activity in 1997, but helped reduce inflation to close to 0.5 per cent. Despite the long economic expansion which began in 1991, unemployment is still above 8 per cent and is not expected to fall much in 1998. As in Australia, the economic growth of New Zealand is likely to accelerate to around 3.5 per cent in 1998, albeit from the well below capacity level of 1.5 per cent in 1997. Substantial fiscal easing as well as exchange-rate depreciation will help boost the economy.

43. Recovery in Western Europe is gaining more widespread momentum. Growth is being underpinned by accommodating monetary policies, more competitive exchange rates, and strong external demand, as well as by the increasing certainty about the start of EMU. For some time, many smaller economies in Europe have been growing faster than their larger continental neighbours. Buoyant exports have fuelled stronger domestic investment, job creation, and consumer spending in Denmark, Finland, Ireland, the Netherlands, Norway, Portugal and Spain. In Greece, the principal source of robust demand has been government and private investment with the former being largely covered by grants from EU. The anticipated strengthening of the recovery in France, Germany and Italy will likely provide an important additional boost to those economies as well as to the still sluggish economies of Austria, Belgium, Sweden and, notably, Switzerland. Indeed, from 1990 to 1996, Switzerland was the only developed country to register no growth at all. Nevertheless, since early 1997 the Swiss economy appears to have been gradually pulling out of the doldrums.

44. The British economy was growing at well above 3 per cent in 1997, its fifth year of expansion. Growth was driven by strong consumer demand, encouraged by falling unemployment, rising real wages and incomes, and a housing market recovery. Together with healthy investment, private spending has offset by a wide margin a drag from curtailed government spending and a larger trade deficit. In 1998, the growth of economic activity is expected to decelerate, reflecting both policy factors (rising borrowing costs and tax increases) and further deterioration in the net trade position (the pound appreciated in real effective terms

by about 20 per cent from end-1995 to end-1997 and domestic demand continues to be more robust than export markets). There is some risk, however, that the substantial monetary tightening in 1997 (the Bank of England raised interest rates from 6 per cent in May 1996 to 7.25 per cent in November 1997), when coupled with continued fiscal stringency and a delayed feed-through of the effects of the sterling's appreciation, might push the slowdown in growth too far.

45. In France and Germany, economic activity strengthened during 1997 (see table A.2) and is likely to improve further in 1998. Exports have led the recovery in both countries, bolstered by weaker national currencies against the dollar. This brisk export performance has coincided with sluggish domestic demand, associated with unusually high unemployment. Hence, a lasting self-supporting upturn has not yet emerged, although there has been some acceleration in investment. On balance, the recovery in both countries is likely to be gradual and rather modest, as fiscal policies will remain relatively tight, at least in the short run, while interest rates are expected to rise, albeit moderately. The latter is almost a requirement if the countries joining EMU are to have the requisite common interest rates at the start of 1999.

46. Economic recovery in Italy is lagging behind that in France and Germany. The most important factor suppressing demand has been the fiscal tightening imposed in order to meet the Maastricht deficit target of 3 per cent of GDP. Also, despite a decline in interest rates, monetary policy has remained stringent and the lira has appreciated, slowing export growth. A gradual improvement in economic activity is expected in 1998. The main growth impulses are likely to come from stronger exports and an upturn in investment. Export demand should improve as growth in the rest of Western Europe picks up and the depressing effect of the exchange appreciation is absorbed. Stronger export growth, together with lower interest rates, will likely stimulate fixed investment. Consumer spending will, however, remain subdued, though it is expected to grow at a slightly faster rate than in 1997. Fiscal policy will continue to be tight, as per Maastricht budget requirements. Despite stronger growth, inflation, which fell from an average rate of 5.3 per cent in 1995 to approximately 1.5 per cent by the end of 1997, is likely to stay low owing to significant economic slack and cautious monetary policy.

47. All in all, the relatively benign inflation outlook that has so far accompanied strengthening economic growth and the determined efforts of policy makers to achieve and maintain economic stability have led to a higher degree of monetary policy credibility in developed countries. The receding fears of inflation have allowed some central banks to maintain accommodative monetary policy longer than would have been considered appropriate even a few years ago; and, with perhaps some exceptions, substantial new tightening should not be needed, at least in the short run. Rather, monetary policy may be expected to continue its course of supporting moderate expansion, albeit with a readiness to tighten in case one economy or another gains more momentum than expected. The commitment to budget consolidation has brought about significant reductions in budget deficits in most developed countries. With public finances under better control and stronger economic growth further reducing budget deficits, the imperative of fiscal restraint is also likely to be felt less intensely in the developed economies.

III. Transition economies: a watershed year?

48. Output of the transition economies rose in 1997 for the first time since the passage from planned to market economies began. While the increase was only about 1.5 per cent, it can be contrasted with the drastic decline that averaged more than 10 per cent a year in the worst years of economic collapse, 1991 to 1993 (see table A.5). Not every country grew in 1997, and some grew by small amounts, but a dozen transition economies grew by 4 per cent or more. Moreover, growth is expected to improve in almost all countries in 1998, when the overall increase in output is forecast to exceed 3 per cent.

49. In most cases, however, the growth processes remain fragile and the outlook is surrounded by considerable uncertainty.[4] While high inflation rates have been largely reduced to more manageable levels, prices still do not guide economic activity to the degree common in most market economies, as enterprise governance and institutional frameworks for business decision-making are still in transition.

50. It is indicative, however, of how much several of the transition economies have advanced that the European Commission in 1997 recommended to the European Council the Czech Republic, Estonia, Hungary, Poland and Slovenia as the transition economies most suited for an early start to negotiations for accession to EU. Questions have been raised about whether additional countries might also have been included in that list, but the crucial point is that none of the transition economies yet functions completely as a market economy and some have taken only early steps in that direction. It will thus be several years yet before the year

1997 can be said with confidence to have marked a watershed in the transition process.

A. Progress amid problems in the Russian Federation and Ukraine

51. Important developments occurred in 1997 in two of the largest transition economies, the Russian Federation and Ukraine. It appears that, for the first time this decade, the Russian economy has grown, if only slightly, and a growth trend is expected to begin to slowly build in 1998. In the case of Ukraine, output continued to fall in 1997, albeit by half the rate of 1996. The period of decline is forecast to come to an end in 1998, although resumption of economic growth on an annual basis is not expected to begin until later.

52. Most indicative of the deep difficulties still faced by these two countries is the fact that there is little evidence yet of an end to the steep investment decline. Fixed investment in 1997 is likely to have fallen 5 per cent in the Russian Federation and 15 per cent in Ukraine, owing largely to sharp contractions in State funding of investment. In 1998, public investment is projected to stay about flat. Any meaningful revival in capital formation would have to be financed from retained earnings or capital markets. However, at least one out of two firms is not profitable, while inter-enterprise debts are still rising. The functioning of capital markets is improving, but banks still play an almost negligible role as intermediaries between savers and investors in the real economy.

53. One notable achievement of the past several years has been a very significant decline in inflation. The 1997 rise in prices in the Russian Federation and Ukraine was on the order of 15 per cent, compared with annual increases of 875 per cent in the former and 4,735 per cent in the latter in 1993. Inflation has declined in Ukraine despite increases in the costs of energy and housing, the result of a gradual reduction of subsidies. On the other hand, an important factor in holding down price increases in the Russian Federation has been government controls on raw material and energy prices.

54. Monetary financing of budget deficits has almost ceased and there have been repeated efforts to curtail budget deficits. However, in both countries, this was partly at the expense of growing arrears in State payment obligations. Further significant deficit declines could hardly be expected at least in the short run, as wage and social security arrears have to be paid; but fiscal positions remain rather shaky principally because of poor tax collection, probably the major economic disappointment of 1997. According to the Government of the Russian Federation, tax collection in the first nine months of 1997 was only 66 per cent of the revenue figure set out in the law on the 1997 budget. Federal government revenues accounted for about 10 per cent of GDP, less than a third of the average level in Western Europe and about half of that in the United States.

55. Poor revenue collection has forced the Governments of both countries to cut planned spending drastically. The major victim of this "downsizing", as noted above, was investment. However, owing to the budget cuts (but excluding the unmet obligations), the 1997 deficit in the Russian Federation is expected to have been around 5 per cent of GDP. In Ukraine, despite expenditure cuts, the deficit rose to close to 6 per cent of GDP, against 4.6 per cent in 1996.

56. An increase of budget revenues to more viable levels must be considered one of the most urgent priorities for the Russian Federation and Ukraine. Indeed, it will be difficult for the State to properly manage the transition process if it does not regain its ability to collect revenues. Planned fiscal reforms that envision the broadening of the tax base, coupled with lower tax rates, and reduction of the number of taxes, as well as streamlining of the remaining taxes could help address this problem, the assumption being that people would have less incentive to evade less onerous tax obligations.

57. The growing need to finance government debt is putting upward pressure on interest rates in both countries. Until the East Asian financial crisis, there had been growing participation of foreign investors in government debt markets in both the Russian Federation and Ukraine (foreigners owned between a third and half of the government paper outstanding in each case). This increases the vulnerability of national financial systems to international developments. A major instance of this vulnerability is that the yield on Treasury bills in the Russian Federation jumped from about 17 per cent to above 30 per cent in response to the global financial turmoil of 1997, as investors became far more cautious in all emerging markets. If upward pressure on interest rates was to persist, it would likely raise the government deficit, while also making the cost of credit to the rest of the economy even more prohibitive than it already is. This, in turn, could once again postpone economic growth, further undermine investors' confidence and strain government finances.

B. Other countries in the Commonwealth of Independent States

58. In only 3 of the 10 other members of the Commonwealth of Independent States (CIS), the Republic of Moldova, Tajikistan and Turkmenistan, is economic activity estimated to have declined in 1997. The Republic of Moldova is still struggling with the decline in industrial production that was in large part caused by the poor harvest of 1996 and the continued problems in energy imports. Tajikistan faces the consequences of persistent internal armed conflict. Turkmenistan suffered from the effects of a poor harvest in 1996. It also saw a reduction in oil and gas production not only as a result of inadequate transportation capacity but also because of non-payment by its foreign customers. In 1998, however, economic activity should stabilize and could even expand in these countries.

59. In the other countries — Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan and Uzbekistan — economic activity increased in 1997. Industrial production grew in all these countries except Armenia where exports fell sharply, though the service sector in Armenia is buoyant.

60. While stabilization has generally brought down rates of inflation from the astronomical figures of the early transition (albeit with a return to an upward trend in Belarus), inflationary pressures remain strong in several countries owing to ample growth of the money supply. Published unemployment rates for some of these countries are quite low, but the actual underutilization of labour is generally believed to be far greater.

61. Governments have made progress in reducing their fiscal deficits as part of their stabilization efforts. In many cases, this has involved the introduction of a new tax code, designed to raise revenues as a percentage of GDP. In some countries, budget deficits have been financed primarily from foreign sources. In Georgia, foreign financing is expected to cover 100 per cent of the deficit, in Kazakhstan and Tajikistan three quarters and in Kyrgyzstan over 40 per cent. As a result, foreign indebtedness has been growing rapidly and by the end of 1997 is expected to reach a level of 150 per cent of GDP in Turkmenistan, about 100 per cent of GDP in Kyrgyzstan and about 70-80 per cent of GDP in the Republic of Moldova and Azerbaijan. Foreign indebtedness is lower, however, in Kazakhstan and Uzbekistan, at between 20 and 30 per cent of GDP.

62. One of the features that distinguishes the experience of most of these countries from that of the Russian Federation and Ukraine is the very heavy reliance on foreign sources for investment. Foreign financing may come to account for two thirds or more of gross capital formation in Armenia, Azerbaijan and Kyrgyzstan, over 30 per cent in Georgia and Uzbekistan, nearly 20 per cent in Turkmenistan and about 10 per cent in the Republic of Moldova. For comparison, the share of foreign investment in capital formation at year-end 1997 is expected to be 3-4 per cent in the Russian Federation and less than 1 per cent in Ukraine and Belarus.

63. The major portion of foreign finance is being channelled either into mining (primarily non-ferrous metals and gold), oil and gas extraction, and the construction of infrastructure or, in the case of countries without such natural resources, into the transit facilities for the energy and raw materials produced by other countries for export. In Georgia, for example, foreign exchange earnings prospects depend heavily on the final decisions on transit routes for other countries' exports; in other words, the construction of, say, a pipeline through Georgia would provide a significant boost to the economy. In all these cases, however, policy makers have to contend with the risk of "Dutch disease", a term that refers to an experience of the Netherlands — one where large gas export earnings caused an appreciation of the national currency and distorted relative prices. Such a phenomenon could interfere with the prospects for a widespread and sustainable recovery of output.

C. Central and Eastern Europe

64. The first countries to enter into the transition process and the first to resume economic growth were in Central and Eastern Europe. The Baltic States, which may be considered together with these countries, have followed close on their heels. Economic growth rates of the latter have recently been among the strongest in the transition economies and are expected, against a background of further macroeconomic stabilization and structural reforms, to continue to be so. The forecasts are not without risks, however, as the current-account deficit of Estonia, for example, exceeded 10 per cent of GDP in 1997 and such a development is likely to be unsustainable. This is a small economy and the capital market inflows that it attracts can quickly build to undesirable levels. Indeed, the financial and exchange-rate systems of these countries are evolving. Thus Lithuania has recently decided to move from an exchange rate that is fixed under a currency board arrangement to one that is more flexible, while introducing a wider range of financial instruments in its markets.

65. Economic growth more generally has been uneven and in some cases, notably those of Albania, Bulgaria and

Romania, there have been significant setbacks. Nevertheless, all the countries in the region are expected to see output rise in 1998. While the sharp economic contraction in Albania in 1997 reflected the major political disruption there, the output declines in Bulgaria and Romania were a result of deferred implementation of adjustment and transition policies. Bulgaria's recent crisis reflected weak monetary and fiscal discipline, the accumulation of bad loans in the banking sector, and delays in enterprise reform. However, with the help of a currency board introduced in July 1997, inflation has slowed down from the hyperinflation levels of the beginning of the year. The exchange rate under the new system has also become quite stable. Confidence has recovered both domestically and externally, as demonstrated by the partial return of savings to Bulgarian banks, and an increase of foreign investment inflows. In addition, the Government has opted for accelerated privatization. Revenues from privatization in 1997 were more than double the previous year's. Prospects for 1998 entail a revival of economic activity, stimulated by investment and private consumption.

66. The output decline in Romania in 1997 was associated with implementation of its stabilization programme. The Government began cutting subsidies severely, allowing firms to go bankrupt, and liberalizing prices. Real wages were allowed to fall and output in retail trade and service sectors thus declined severely. Public consumption declined but not as sharply as private consumption. As a consequence of the depreciation of the local currency, net exports improved in 1997.

67. While there was no outright output decline, the slowdown in the Czech Republic in 1997 reflected adjustment steps that international financial market pressures made it impossible to postpone. Considerable private market funds had poured into the country in recent years, easily financing a current-account deficit that exceeded 8 per cent of GDP in 1996. Meanwhile, the mass privatization of industry was not followed by sufficient enterprise restructuring and financial-sector development and reform lagged. Real wages grew faster than productivity and exports more slowly than imports, as the currency appreciated in real terms. As part of the increasing nervousness of international financial markets, the Czech koruna came under attack and in May 1997 the Government had to abandon the exchange-rate peg, allow the koruna to depreciate, reduce public-financed imports and impose a sharp adjustment package. The worst floods of the century followed in the summer, further complicating the policy environment. This notwithstanding, growth of output is forecast to improve in 1998.

68. In Hungary, where many years of reform had yet to be translated into sustained economic expansion, the large foreign investment inflows of previous years seemed finally to be bearing fruit, as the plants established fully or partly by foreign investors have been gearing up production. Hungary's trade balance has been improving, and its growth rate strengthened in 1997 and is expected to be maintained in 1998. Important fiscal reforms are also under way. For example, the Hungarian Parliament approved a new pension system in which private associations can be an alternative to the State-controlled funds. Current employees will be able to choose to remain fully or partly in the State-controlled pension system, but employees just entering the labour force must participate in the private pension system.

69. Only one transition economy, Poland, has grown fast enough and long enough to raise its measured output above the previous peak under the central planning regime, and it achieved this benchmark in 1997. (The achievement is of uncertain meaning, however, as the composition of production has changed so dramatically since the late 1980s.) Growth has been fuelled by strong domestic and export demand, but it is forecast to slow down in 1998 (see table A.5). Fixed investment has become a leading growth sector and, even though its growth is expected to slow in 1998, real investment is still forecast to increase by double digits. Also, while export growth has been strong, especially to Western Europe, import growth has been even stronger. The widening current-account deficit became a focus of concern after the financial markets successfully challenged the Czech exchange rate, as noted above, and especially when Polish floods in July raised uncertainty about the economic outlook. Nevertheless, with substantial long-term capital inflows, falling rates of inflation and unemployment, a moderate budget deficit, and a measure of currency depreciation, the overall situation remains uniquely favourable.

70. It thus appears that the countries in the region that began with more advanced economic structures and made serious reform efforts have increasingly been laying the foundations for solid economic growth; but in these countries, no less than in the countries that are not as far down the reform path, unemployment remains a serious concern. In the Czech Republic, where the surge in open unemployment experienced elsewhere had been avoided, the unemployment rate rose to almost 5 per cent in 1997 and a further increase to 6 per cent is forecast for 1998. On the other hand, unemployment rates have fallen in Hungary and Poland (more substantially in the latter), although they are expected to still remain above 10 per cent in 1998.

IV. Developing economies: growth, reform, financial crisis

71. The momentum of economic growth in developing countries was maintained in 1997, despite the unfolding financial disturbances, as GDP grew 5.7 per cent on average (see table A.6). However, the international financial turmoil of 1997 is expected to impact more heavily in 1998, albeit in a limited share of the developing world. As a result, growth of output is forecast to fall to 5 per cent.

72. Growth continued to be widespread in 1997, shared by all but three of the 95 regularly monitored countries (Jamaica, Morocco and Thailand). The poorest countries — the least developed ones — maintained an overall growth rate of over 4.7 per cent. A large number of countries, consisting of almost 95 per cent of the total population of countries monitored, continued to witness rising GDP per capita. Moreover, as in 1996, those attaining GDP per capita growth of 3 per cent or higher accounted for over 70 per cent of the total population of the countries monitored (see table 2).

73. There was a notable strengthening of economic recovery from the 1995 recession in Latin America, as economic reform continued and the international economic environment remained favourable. In Africa, overall economic growth decelerated owing to adverse weather conditions, although efforts in macroeconomic adjustment and structural reform were generally sustained. Sub-Saharan economies as a group grew almost 5 per cent, as in 1996 (see table A.6).

74. This progress notwithstanding, high unemployment and widespread poverty persist in Africa and Latin America. It appears that a higher rate of economic growth, perhaps at least 3 per cent annual growth of GDP per capita at the country level, is necessary in order to begin to provide sufficient resources and opportunities to alleviate these social problems to a meaningful degree. In 1997, this criterion was met by only eight Latin American countries (Argentina, Barbados, Chile, the Dominican Republic, Guyana, Mexico, Peru and Uruguay) and 14 African nations (Angola, Benin, Botswana, Burkina Faso, Chad, Côte d'Ivoire, Egypt, Ethiopia, Malawi, Mauritius, Mozambique, Rwanda, Togo and Uganda).

75. Economic growth in Eastern and Southern Asia slowed in 1997, as the financial turmoil in the region curtailed the growth of several countries in the latter part of the year. In China, however, a high rate of growth was sustained with moderating inflation, as monetary policy was kept tight for most of the year. While China remains in a class by itself in terms of rates of growth of output, other countries in Asia, notably in West and South Asia, had buoyant growth outcomes in 1997.

76. Economic expansion in Eastern and Southern Asia as a whole is forecast to slow further in 1998, despite more rapid growth in the two largest economies, China and India. Growth in 1998 will slow as well in Latin America, as countries with adjustment imperatives have been prompted by the spread of financial turbulence to speed adjustment. On the other hand, barring significant new weather disturbances, economic growth is expected to accelerate in Africa.

A. Africa: will it sustain the growth impulse?

77. Economic growth in Africa in 1997 slowed to 3 per cent from 4.4 per cent in 1996. Economic weakening in Morocco and South Africa, in particular, but also in other countries, such as Kenya, Malawi, Tunisia, the United Republic of Tanzania, Zambia and Zimbabwe, that had grown relatively rapidly in recent years, contributed to the slowdown in the regional growth rate. Expansion was nevertheless widespread and it was relatively strong in over one third of the countries regularly monitored.

78. The two most significant factors behind the surge in growth that Africa had enjoyed in 1996 — high oil prices and improved agricultural output — contributed much less to growth in 1997. Oil prices declined and agricultural production fell in many countries, including Ethiopia, South Africa and Zambia, after bumper crops had raised agricultural output to record levels in 1996.

79. While reducing aggregate GDP growth only moderately, the weather played havoc in some parts of the continent. Drought and poor rains were especially severe in northern, eastern and central Africa. Given the significance of agriculture in these economies, smaller harvests have had adverse effects on income, on consumption and on the growth of the processing sectors. Drought in Morocco caused its GDP to decline for the fourth time in the last six years and necessitated higher cereal imports. Drought led to famine and urgent appeals for international food aid in parts of Ethiopia — which had temporarily achieved food self-sufficiency in 1996 — and in Rwanda, the Sudan and the United Republic of Tanzania. Severe food shortages were also recorded in Burundi, the Congo, the Democratic Republic of the Congo, Eritrea, Kenya and Uganda. In the western part of the Sahel, agricultural prospects had been unfavourable owing to dry spells. On the other hand, heavy rains or flooding in Malawi, Somalia and Zambia caused

Table 2
Number of developing countries[a] with GDP per capita growth of 3 per cent or more, 1991-1997

		1991		1992		1993		1994		1995		1996		1997	
	Number of countries monitored	*N*	*P*	*N*	*P*	*N*	*P*	*N*	*P*	*N*	*P*	*N*	*P*	*N*	*P*
Developing countries of which:	95	26	44	32	45	28	49	34	72	31	69	38	74	37	73
Latin America	24	6	16	9	20	9	27	9	56	5	17	7	33	8	37
Africa	38	6	8	7	12	4	12	8	11	7	13	15	27	14	33
Eastern and Southern Asia (including China)	18	11	59	12	58	13	62	14	93	14	93	13	94	12	90
Western Asia	15	3	8	4	32	2	29	3	3	5	33	3	35	3	38
Least developed countries	40	5	7	9	23	8	46	11	42	12	45	12	51	14	56

Source:
UN/DESA, including population estimates and projections from *World Population Prospects: The 1996 Revision* (United Nations publication, forthcoming).

Note:
N: number of countries that achieved the specified per capita growth; P: percentage of total population of monitored countries in a given group accounted for by countries in this group that achieved the specified per capita growth.

[a] Comprising the 95 countries that are regularly monitored.

widespread damage to food crops and depressed agricultural output and GDP growth.

80. Export growth was the most important factor behind GDP growth in many countries in 1997. Most fuel exporters compensated for the fall in oil prices by increasing the volume of production. An improvement in non-oil commodity prices, particularly coffee prices, and larger export volumes boosted export revenues. Botswana, Côte d'Ivoire, Egypt, Morocco, Namibia, South Africa, Tunisia, Uganda and Zimbabwe, in particular, benefited from high export growth. Some countries (for example, Ghana) continued to expand non-traditional exports or revenues from tourism, which partly offset lower export revenues from traditional sources.

81. In South Africa, steady growth in exports, aided by a weak exchange rate and recent investment in capacity expansion, particularly in the processing of minerals, bolstered the economy. If not for the strong export demand, weak domestic demand might have tipped the country into a recession. Despite the slower growth in South Africa, its expanded trade and investment with other economies in the region helped raise their growth.

82. Domestic investment, including increased inflows of foreign direct investment, made an important contribution to GDP growth in a number of countries in 1997. Besides being attracted by improved economic conditions, foreign investment has responded to opportunities created by steadily expanding privatization programmes in the region. Since the devaluation of the Communauté financière africaine (CFA) franc in 1994, domestic investment ratios have increased from the low levels prevalent in the early 1990s in several countries of the franc zone. In South Africa, however, a period of rapid growth of investment ended after a number of large projects were completed. Indeed, capacity utilization declined in South Africa in 1996.

83. Inflation in the region for the most part continued to slow down, as restrictive fiscal and monetary policies have been maintained. In a number of countries — Algeria, Egypt, Namibia and South Africa — lower inflation rates provided an opportunity to ease monetary policy. In others, drought-related increases in food prices drove up inflation. Inflation crept up to double digits — the highest levels in recent years — in Kenya and Uganda, two countries that had earlier reduced inflation to single-digit levels. Inflation remained high in Angola, in Burundi and in the Democratic

Republic of the Congo and the Sudan, where political factors have disrupted production and distribution of goods. Wage increases also played a role in pushing up inflation rates in countries such as Benin and Zimbabwe, while in Ghana inflation remains rather high as a result of exchange-rate depreciation and increases in administered prices of petrol and electricity.

84. African countries generally continued to adhere to strict monetary and fiscal policies to improve macroeconomic balance. Most countries have also adopted a range of market-oriented economic reforms and trade liberalization policies. For example, new central bank legislation was adopted in Kenya and the banking sector has been restructured in Mozambique, the United Republic of Tanzania and Zimbabwe. Privatization of state-owned enterprises has progressed in some countries and has been initiated in others. Trade and investment liberalization also continued. For example, in Egypt, trade restrictions were eased and a new investment law was passed, offering tax incentives, protection of property rights, freedom of financial transfers and an end to restrictions on new investment. In addition to these policy measures, African countries have also sought to develop human resources, expand infrastructure and strengthen institutions.

85. In some countries, however (for example, Burundi, the Congo, the Democratic Republic of the Congo, Kenya, Sierra Leone and Uganda), political instability or civil strife negatively affected economic activity in 1997. In Sierra Leone, the social and economic situation deteriorated sharply following a *coup d'état* which removed the democratically elected president from power in May 1997. Nigeria's oil production was also hindered by ethnic unrest and strikes. On the other hand, the successful completion of internationally supervised elections in Liberia paved the way for post-conflict reconstruction after a seven-year civil war.

86. Growth in Africa is forecast to rebound to about 4 per cent in 1998, as the weather-related factors in the slowdown of 1997 are expected to be temporary in most countries. The main risks to this outlook are weaker-than-expected demand and prices of commodities and unfavourable weather conditions. Weather disturbances from El Niño raised the likelihood of poor rains for the 1997/98 crop season, particularly in southern Africa. Growth could also be adversely affected in 1998 if expected export growth is held back by the currency crisis and economic slowdown in East Asian countries, some of which have become the fastest-growing trading partners for some African countries (for example, South Africa) in recent years.

B. Latin America and the Caribbean: recovery and new reform

87. Latin America and the Caribbean had absorbed an economic recession in 1995, from which it began to emerge in 1996. The recovery strengthened in 1997, as regional growth rose to about 5 per cent and per capita GDP rose by 3 per cent. Acceleration of economic growth was widespread, but was especially noteworthy in Argentina, Costa Rica, El Salvador, Mexico, Peru and Venezuela. The majority of countries expanded at rates between 3 and 5 per cent, while Argentina, the Dominican Republic, Guyana, Mexico and Peru grew between 6 and 8 per cent. This regional expansion was spurred by a favourable international environment, characterized by abundant liquidity — albeit with limitations as the Asian currency turmoil spread — and buoyant markets for Latin American exports.

88. In Argentina and Mexico, growth was initially led by exports and investment, and extended to consumption in the second half of the year, as wages rose. Consumption was also stimulated by rising employment in Mexico and expanding credit in Argentina. In Brazil, in contrast, the consumption boom, which had provided the impulse to growth in 1996, started to decelerate in the second quarter of 1997, as income gains weakened and tightening monetary policy constrained credit. Even with tighter monetary policy, however, investment strengthened, particularly construction. Along with exports and agricultural output, investment gradually gave a major impetus to growth.

89. In the Andean subregion, including Chile, Colombia, Ecuador, Peru and Venezuela, a combination of policy easing, especially on the monetary side, and growing export supplies drove the expansion in 1997 and will continue to support growth into 1998. In Peru, exports have accelerated again in non-traditional areas, such as chemicals, while in Colombia and Venezuela they have tended to be concentrated in key commodities, particularly oil. In Venezuela, the opening of the oil sector to foreign investors is attracting significant capital inflows and is increasing output. The weather disturbances caused by El Niño are expected to intensify around the end of the year, with the brunt of the damage borne by the fishing and agricultural sectors.

90. In the Caribbean, the economy of Jamaica was in a downturn for the second straight year, owing to deep cuts in public investment, falling exports and serious losses and failures in the financial sector. Government outlays in infrastructure and foreign investment in tourism were the main impetus to buoyant growth in the Dominican Republic.

Cuba's economic growth slowed sharply to an estimated 2.5 per cent, owing to a drop in sugar output from the previous year's level and a levelling off in tourism.

91. The economy of Haiti remains in the doldrums. Per capita income in this, the poorest country in the western hemisphere, did not rise in 1997 and the impulses to growth have yet to materialize from increased government expenditures and public investments financed by the international community. A protracted political stalemate seriously impeded the functioning of the Government, eroding business confidence in the economic prospects for the country.

92. The outlook for growth in Latin America in 1998 has been seriously clouded by the turmoil in international financial markets and its spillover into the region in late 1997. A sharp slowdown in financial inflows in 1998 would curb growth; but efforts to bolster investor confidence through more rapid implementation of austere policy reforms also tend to slow growth, albeit temporarily.

93. External financing costs have risen sharply since the international financial turmoil began. For example, the spread between yields on Latin American Brady bonds and United States Treasury bonds increased by more than 6 percentage points in November 1997. The country hit most directly was Brazil, where the central bank spent as much as $10 billion in two weeks in November and almost doubled key interest rates to counter speculative outflows of funds. These policies embodied monetary tightening, which will negatively affect investment, production and consumption. In addition, an austere fiscal package was announced in November, including the elimination of 33,000 public sector jobs and other spending cuts, plus tax increases, which taken together are designed to reduce the fiscal deficit by over 2 per cent of GDP in 1998. One result of these recent developments is that 1998 growth forecast for Brazil has been cut to 1 per cent and even this may not be achieved.

94. Argentina's growth will also suffer, both through spillover effects in the financial market and reduced imports by Brazil, which currently absorbs over one quarter of its exports. Chile and Colombia, which both adopted measures long ago to discourage short-term capital inflows, have so far been less affected by the financial turbulence.

95. More generally, the strengthened macroeconomic policy management since the start of the decade has put economies of the region in a stronger position to cope with potential crises. The most notable outcome has been the deceleration of inflation, from an average of almost 20 per cent in 1996 to an estimated 12 per cent in 1997, its lowest level in half a century. Further reduction of inflation is anticipated in 1998 (see table A.7). In Argentina, where inflation has reached the lowest level in decades, there has been no sign of overheating despite healthy growth. In other countries, including Brazil and Chile, maintaining strong exchange rates linked to the United States dollar has held import prices down.

96. This is not to say that fiscal reforms have everywhere been so strong as to earn the plaudits of the financial markets. The November turmoil in Brazil is a case in point. Of most concern in fiscal reform, applying to Venezuela as well as Brazil, is the fact that urgently needed structural measures such as the reform of social security and the civil service systems have yet to be approved by the legislatures. Similarly, privatization in Venezuela has fallen behind schedule. The pressure of the current financial turmoil has motivated Brazil's Congress to approve an amendment to the Constitution allowing civil service reforms.

97. The external balance in the region remains sensitive to economic growth. With stronger expansion in 1997, the regional net current-account deficit is estimated to have increased to a level well in excess of the high registered in 1994. Brazil's external deficit (4.5 per cent of GDP) is one of its vulnerable points. The external deficit is expected to stabilize in 1998 as a result of lower growth.

98. The recent economic recovery has brought on some progress in the reduction of poverty and unemployment and provision of social services. Nonetheless, unemployment remains high in Argentina, Brazil, Colombia, Ecuador, Nicaragua, Panama and Venezuela; in Mexico it returned to its pre-1994 level. Ultimately, the sustainability of the economic recovery in the 1990s hinges on how unresolved social problems that are common to several countries in Latin America are addressed. Social support for continued economic reforms cannot be taken for granted. Recent shifts in the political landscape, including the emergence of a powerful legislative opposition in Argentina and Mexico, will push these issues higher in the public agenda. The development imperative is to spread the benefits of growth equitably, not just to increase GDP more rapidly.

C. East Asia: financial shake-out takes hold

99. Despite their rapid and sustained growth, several economies in East Asia built up external deficits over the last few years, exacerbated recently by deteriorating competitiveness. Moreover, the deficits were largely financed by short-term financial inflows, which tend to be volatile. A more pervasive problem has been in the financial sector. Ineffective prudential regulation and supervision and

weak financial institutions, in the presence of large financial inflows, fed speculative bubbles in financial and real property prices and in lending for construction. Slowing economic growth over the last two years, however, led to the bursting of these bubbles and, in turn, to a crisis in the financial sector. As these problems emerged and it became apparent that Governments were slow to address them, private investors moved their funds offshore. That Governments spent billions of dollars trying to maintain exchange rates in the face of these outflows, and ultimately failed, resulted in the sharp depreciation of several currencies.

100. The macroeconomic imbalances and structural weaknesses are being addressed with sharp adjustment measures and financial-sector reforms, supported by large-scale official financing under International Monetary Fund (IMF) leadership, especially in Thailand, Indonesia and the Republic of Korea. The immediate impact of price adjustments and policy measures on economic growth has been contractionary, entailing a significant rise in unemployment in a number of countries.

101. Drought, forest fires and smog have compounded the problem, in particular in South-East Asia, where they have reduced agricultural growth and damaged the tourism industry. Moreover, the deflation of financial asset and real property prices can be expected to deter investment. In addition, sharp exchange-rate depreciation, which gives a temporary impulse to inflation, is also expected to slow real wage growth, thereby putting a drag on consumption.

102. To varying degrees, tight monetary policies, which initially aimed to bolster exchange rates and restrain the inflationary effects of depreciation, will be maintained and will hold back domestic demand growth. While the exchange rate depreciation in Singapore and Taiwan Province of China has been relatively small, high interest rates are expected to continue and will dampen domestic demand. In Hong Kong, China, the maintenance of sharply higher interest rates in defence of the peg of its currency to the dollar will curtail domestic demand the most.

103. In addition, significant fiscal tightening is being implemented in Thailand, Indonesia, the Philippines, the Republic of Korea and Malaysia in order to reduce fiscal and current-account deficits. Large infrastructure projects and public capital-equipment purchases requiring high levels of imported machinery have been postponed or cancelled. In Singapore and Taiwan Province of China, however, a fiscal stimulus is expected from increased government infrastructure investment in 1998.

104. The 1997 crises revealed — and, in some cases, exacerbated — the extreme fragility of the financial sector in many economies in the region. The main exceptions are Hong Kong, China; Singapore; and Taiwan Province of China, where the banking systems are sound despite a high level of property loans. In countries with a high proportion of short-term debt that is denominated in foreign currency — such as Thailand, Indonesia, the Philippines and the Republic of Korea — exchange-rate depreciation caused a substantial increase in already-high debt-servicing burdens.

105. In the case of Thailand, the impact of the crisis was immediate and drastic, as the suspension of a large number of insolvent financial companies seriously curtailed the extension of credit. This aggravated the liquidity problems of the corporate sector and has led to a sharp slowdown in investment as well as disruptions in operations, resulting in job losses. As part of its financial reform programme, more than half of the financial companies in the country have closed. In Indonesia as well, the Government has closed down a number of insolvent banks.

106. In the Republic of Korea, the deteriorating financial condition of the highly leveraged conglomerates has had a knock-on effect on financial institutions that recently took on high levels of short-term foreign debt for on-lending to the conglomerates. At first, new loans from the Government injected large amounts of liquidity into the financial system, in order to buy time so as to allow corporations to restructure their debts. However, the renewed plunge in the exchange rate and in stock-market prices in November 1997 and the refusal of foreign creditors to continue extending credit rendered this approach untenable and precipitated the request to IMF for assistance.

107. Inflation in the region is expected to accelerate in 1998, as the effects of the large currency depreciation feed through the economies. Particularly important have been increases in the prices of imported fuel, capital goods and consumer goods. The inflation situation will be aggravated by poorer agricultural production in some countries. Inflation is thus expected to rise sharply in Indonesia and Thailand, reaching double-digit levels, although inflation in the range of only 4 to 8 per cent is expected in most of the other economies. In contrast, inflation in Hong Kong, China, will decelerate significantly as a result of tight monetary policy, asset price deflation and maintenance of its exchange-rate peg to the dollar.

108. The exchange-rate depreciations that the financial markets forced on the region (see table A.10) have been helping to rebuild the export competitiveness that some countries had lost. With favourable global demand

conditions, stronger export growth is thus expected, although the extent of improvement will be restrained by supply constraints (owing to the credit squeeze and higher costs of imported inputs) and the weakening of intraregional markets for exports. Consequently, the boost from export growth in Thailand is expected to be moderate. Similarly, in the Philippines, although exports have increased strongly in 1997 owing to growth of demand, the pace may not continue. In the Republic of Korea, the boost to exports from currency depreciation is tempered somewhat by weaker export markets in South-East Asia. Despite weaker intraregional exports, stronger overall export growth is expected to be the most important impetus to economic growth in Singapore and Taiwan Province of China.

109. With stronger exports, as well as slower import growth owing to slower growth of income and higher local currency prices of imports, the current-account deficits in the region are expected to shrink. The current-account deficit in Thailand is forecast to fall to about 3 per cent of GDP in 1998, having been 8 per cent in 1996. The deficit in Malaysia, which was 6 per cent of GDP in 1997, is also to be reduced to about 3 per cent of GDP, as fiscal tightening and slower growth will dampen import demand. The smaller deficits in Indonesia, the Republic of Korea and the Philippines are expected to be reduced further.

D. South Asia: towards a path of high growth

110. South Asia largely escaped the international financial turmoil of 1997, although growth in the region slipped to 5.3 per cent (see table A.6). Economic reform has a central place in the policy agenda of the countries in this region, where, except in Pakistan, it is increasingly associated with strong growth. In certain countries, political developments in 1997 raised business uncertainties about policy continuity and implementation, which it has fallen to the political process to resolve. With success in these endeavours, growth in the region is expected to return to 6 per cent in 1998.

111. Slower economic growth than expected in India in 1997 was mainly attributable to agricultural weakness which, by dampening rural demand, affected industrial investment. The easing of monetary policy in 1997 will have a stimulative effect on demand in 1998 and, coupled with a more normal agricultural out-turn, could raise GDP by 6.5 per cent. This notwithstanding, concerns that the fiscal deficit was overshooting its target of 4.5 per cent of GDP led the authorities to announce in September 1997 an emergency package of spending cuts and tax increases. It will dampen the positive impact of the tax cuts announced in the 1997/98 budget, and the possibilities of further fiscal slippages and corrective measures may limit business optimism over the coming year.

112. Pakistan suffered a sharp slowdown in economic growth in 1997 (from over 5 per cent, growth fell to 3 per cent), as it confronted serious macroeconomic imbalances. Both the fiscal and current-account deficits exceeded 6 per cent of GDP and inflation has been in double digits. Success in macroeconomic adjustment depends crucially upon the Government's ability to cut the large budget deficit. The goal is to reduce this to 4 per cent of GDP in three years. The strategy to raise revenues entails widening the tax base and cutting tax rates to reduce incentives for tax avoidance, while increased growth of GDP would also raise tax revenues. Other measures are likely to be put into effect over a three-year period. Growth is likely to improve to 4 per cent in 1998, driven by an upturn in fixed investment. Aggressive tax reduction and the recent approval of an IMF assistance package have improved business confidence.

113. In Bangladesh, strong growth in agricultural output has supported GDP growth of over 5 per cent in 1997, in spite of sluggish industrial growth. Also, export growth has strengthened markedly since 1996, when political unrest severely disrupted export production. Strong agricultural growth has kept food prices low, helping to hold inflation below 4.5 per cent. However, inflation is expected to rise in 1998, owing to higher public sector wages. Industrial growth is likely to pick up, abetted by increasing foreign investment in the energy and power sectors. Agricultural growth, on the other hand, will slacken, owing to a reduction in the subsidies of input prices while food prices are low. As a result, the economy is forecast to grow 5 per cent again in 1998. The trade deficit is expected to widen slightly in 1998 as imports grow faster than exports in the wake of increased industrial activity. A depreciation of the currency, by about 8 per cent, is also likely as the authorities seek to boost export competitiveness. At the same time, buoyant remittances from overseas workers are helping to contain the current-account deficit.

E. China: sustaining fast growth and more reform

114. In 1997, China further consolidated the macroeconomic stabilization policies that have been in place since 1995. GDP growth moderated slightly to 9.3 per cent (table A.6) and the rate of inflation fell to below 4.5 per cent (table A.7). A tight monetary policy, complemented by more direct administrative measures, was maintained throughout

most of 1997. The rate of growth in fixed-asset investment was halved to only 10 per cent, continuing a slowing trend. A good harvest also helped to restrain consumer price increases. After inflation dropped below the government target and in the face of a significant deceleration of GDP growth in the third quarter, the central bank cut lending rates by an average of 1.1 percentage points in October to bolster growth.

115. Output of State-owned enterprises (SOEs) continued to grow more slowly than that of the non-State sector. A major policy decision to reform and improve the efficiency of the SOE sector was reached in September 1997. This will involve converting most SOEs into joint-stock companies and allowing loss-making enterprises to restructure through mergers or go bankrupt. Labour-shedding by reformed SOEs can be also expected. However, the consequences of the proposed reform for unemployment and the concern for social stability may limit the pace at which the reform can be implemented, as SOEs account for about two thirds of total industrial employment. To cushion the social impact of the reforms, the Government is expanding its experimentation with a social safety net that includes unemployment insurance, a socially funded pension system and health-care insurance.

116. After a slowdown in 1996, export earnings are estimated to have grown 16 per cent in 1997, while the value of imports grew less than 10 per cent. Consequently, the current account jumped to a $25 billion surplus. Coupled with continued strong capital inflows, China's foreign exchange reserves rose substantially.

117. External demand is forecast to be weaker in 1998, with export growth decelerating to about 10 per cent (table A.8). The recent depreciation of other Asian currencies will reduce the competitiveness of some of China's exports. Moreover, weak growth of imports by developing economies in Asia, which account for about one third of China's total exports, will also dampen export growth. At the same time, the reduction of its average tariff rate from 23 to 17 per cent in October 1997 is expected to boost China's import growth. Together with the export developments, the trade surplus is expected to shrink. Capital inflow is also expected to moderate, as global investors reassess risks in view of developments in the region and as investors from the region itself face shortages of liquidity and financial difficulties at home.

118. The outlook for 1988 is GDP growth of about 10 per cent, with inflation of 5 to 6 per cent, mainly resulting from strengthened domestic demand created by the more expansionary monetary policy stance taken late in 1997. This will boost employment-generation and help alleviate the debt-service burden of SOEs. The more expansionary macroeconomic policy stance will also facilitate SOE reform, as adjustments are easier to absorb in a more rapidly growing environment.

F. Western Asia: towards a medium-term growth path

119. Economic growth in Western Asia strengthened in 1997, reflecting the continued impulse from the earlier surge in oil prices and from growth in private investment in non-oil sectors. The oil windfall has filtered through to non-oil sectors and the increased oil revenues have helped ease fiscal conditions. It has also led to significant improvements in current-account balances of most oil-exporting countries. However, the favourable impact on the region of higher oil prices was partly offset by the negative effect on business confidence of the disappointments in the Middle East peace process. For the region as a whole, as the benefits of the 1996 rise in oil prices subside, and with oil production in the region unlikely to increase rapidly, output growth is expected to slip below 5 per cent in 1998.

120. The partial resumption of oil exports by Iraq has helped relieve economic conditions and raised GDP in that country in 1997. GDP nevertheless remained a fraction of what it had been in more normal times. Extremely difficult conditions continue, notably for children. The need to maintain the United Nations sanctions regime on Iraq perforce deters a greater economic dynamism in the country and with its regional trading partners.

121. Economic growth in Saudi Arabia decelerated in 1997, owing to lower oil prices. With the budget and current-account deficits reduced considerably as a result of the recent rise in oil revenues and cuts in spending, the priority of government policy has shifted to medium- and long-term reform of the economy. Privatization, which has been negligible in recent years, will be high in the agenda of reform.

122. In the Islamic Republic of Iran, large external debt obligations and a high rate of inflation will continue to constrain growth. However, inflation is expected to slow to around 20 per cent, reflecting stricter price controls and greater efforts at curbing liquidity growth. The new Government is expected to accelerate efforts to encourage foreign investment and will aim to boost non-oil exports by easing foreign exchange restrictions. The current strict

import policy will be eased, with positive consequences expected for both consumption and production levels.

123. In the oil-importing countries, economic growth decelerated in 1997. There was a sharp slowdown in Israel, amid gloom over the slow progress in the peace negotiations. Economic growth in Israel was about 2 per cent in 1997 and per capita GDP thus declined after seven years of sustained growth. Uncertainty over the peace process and a restrictive policy environment, as well as corporate retrenchment and restructuring in response to international competition, were major factors.

124. The economy in the West Bank and Gaza suffered a drastic slowdown in 1997 and unemployment remained very high, at times exceeding 50 per cent, largely as a result of Israel's repeated closure of the Palestinian territories. Prospects for the economy remain highly dependent on the peace process and on the remittances of Palestinians working in Israel.

125. Economic activity in Jordan improved slightly with GDP growth exceeding 6 per cent, benefiting from resumption of the export of oil by Iraq. Increased trade with Iraq and the Persian Gulf States will boost export growth, but investment will be constrained by regional political uncertainties.

126. Output in Turkey expanded markedly for the third consecutive year. Growth of GDP, which is estimated to have averaged 6 per cent in 1997, is expected to remain buoyant in 1998. High growth has been driven mainly by the continuation of robust exports, strong recovery in private consumption and expansionary fiscal policies, albeit at the cost of continued high inflation (about 80 per cent at an annual rate). Turkey's fiscal position deteriorated sharply in 1997, as a result of high public spending. The collapse of the former Government's revenue-raising schemes combined with sharp increases in public sector wages (35 per cent) and less-than-expected privatization revenue pushed the budget deficit to nearly 10 per cent of GDP. The new Government, which took office at the end of June 1997, has pledged to reduce spending in order to cut inflation to 50 per cent by the end of 1998.

Notes

[1] World output growth is measured as a weighted average of the output growth rates of 143 countries, based on 1993 exchange rates and prices (with some marginal adjustments). A different weighting scheme, using estimated purchasing power parity (PPP) exchange rate gives a different indicator of world growth (see table 1). International institutions are divided on the issue of which scheme is preferable. For additional details, coverage of country groupings employed in the present report, and other methodological matters, see *World Economic and Social Survey, 1997* (United Nations publications, Sales No. E.97.II.C.1 and corrigenda), statistical annex.

[2] Insufficient information is available to estimate trade volumes in many of the transition economies and thus little can be said about the growth of the trade of those economies as a group.

[3] United Nations publication, Sales No. E.97.II.C.1 and corrigenda.

[4] Considerable uncertainty also still surrounds the basic macroeconomic data of many of the transition economies and the estimates and forecasts presented here must thus be interpreted with more than the usual degree of caution.

Table A.1. Developed economies: rates of growth of real GDP, 1988-1998
(Annual percentage change[a])

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developed economies	4.4	3.7	2.7	♦0.7	1.6	0.8	2.7	2.1	2.4	2.6	2½
Major industrialized countries	4.5	3.7	2.7	♦0.7	1.7	0.9	2.6	2.0	2.4	2.5	2¼
Canada	4.9	2.5	-0.2	-1.8	0.8	2.2	4.1	2.3	1.5	3.6	3¼
France	4.5	4.3	2.5	0.8	1.2	-1.3	2.8	2.1	1.5	2.2	3¼
Germany	3.7	3.3	4.7	♦1.2	2.2	-1.1	2.9	1.9	1.4	2.4	2¾
Italy	3.9	2.9	2.2	1.1	0.6	-1.2	2.2	2.9	0.7	1.3	2
Japan	6.2	4.8	5.1	3.8	1.0	0.3	0.6	1.4	3.5	0.8	1¼
United Kingdom	5.0	2.2	0.4	-2.0	-0.5	2.1	4.3	2.7	2.4	3.5	2½
United States	3.8	3.4	1.3	-1.0	2.7	2.3	3.5	2.0	2.4	3.7	2½
Other industrialized countries	3.6	3.8	2.8	0.9	1.1	0.5	3.0	2.7	2.4	2.8	3¼
Australia	3.8	4.2	1.2	-1.3	2.6	3.9	5.4	4.0	3.6	3.1	3¾
Austria	4.1	3.8	4.3	2.8	2.1	0.4	3.1	1.8	1.2	1.8	2½
Belgium and Luxembourg	4.9	3.6	3.3	2.3	1.8	-1.2	2.3	2.0	1.5	2.3	2¾
Denmark	1.2	0.6	1.4	1.3	0.2	1.5	4.3	2.6	2.4	2.5	3
Finland	4.9	5.7	0.0	-7.1	-3.6	-1.2	4.4	4.3	3.7	4.6	4
Greece	4.5	3.5	-0.6	3.5	0.4	-0.9	1.5	2.0	1.8	3.3	3½
Iceland	-0.1	0.3	1.3	1.1	-3.4	1.0	3.7	1.0	5.2	1.0	½
Ireland	4.3	6.1	7.8	1.9	3.9	3.1	7.0	10.5	7.7	8.0	7
Malta	8.4	8.2	6.3	6.3	4.7	4.5	4.0	9.0	4.2	3.7	4¼
Netherlands	2.6	4.7	4.1	2.3	2.1	0.3	2.6	2.3	3.5	3.2	3½
New Zealand	2.3	-0.6	0.3	-2.3	0.6	5.1	5.5	2.7	2.1	1.5	3½
Norway	-0.1	0.9	2.0	3.0	3.4	2.7	5.5	3.6	5.3	3.4	4¼
Portugal	4.0	4.9	4.1	2.1	4.2	7.8	1.9	2.0	3.0	3.3	3¼
Spain	5.1	4.8	3.7	2.3	0.7	-1.2	2.1	2.8	2.2	3.2	3½
Sweden	2.7	2.4	1.4	-1.7	-1.4	-2.2	2.7	3.0	1.1	2.3	3
Switzerland	3.1	4.4	3.7	-0.8	-0.1	-0.5	0.5	0.8	-0.2	0.7	1¾
Memo items:											
Western Europe	4.0	3.4	2.9	♦0.7	1.1	-0.4	2.9	2.4	1.7	2.5	3
European Union (15)	4.1	3.4	2.9	♦0.7	1.1	-0.5	2.9	2.4	1.7	2.5	3
Other	2.1	3.3	3.2	0.4	1.0	0.6	2.1	1.7	1.7	1.7	2¾

Source:
UN/DESA, based on IMF, *International Financial Statistics*.

♦ Indicates discontinuity in the series: from 1991, Germany includes eastern *Länder* (States).

[a] Data for country groups are weighted averages, where weights for each year are the previous year's GDP valued at 1993 prices and exchange rates.

[b] Preliminary estimates.

[c] Forecast, partly based on Project LINK.

Table A.2. Major industrialized countries; quarterly indicators, 1995-1997

	1995 Quarter				1996 Quarter				1997 Quarter		
	I	II	III	IV	I	II	III	IV	I	II	III
					Growth of gross domestic product[a]						
Canada	1.1	-0.8	2.1	0.8	1.4	1.4	3.3	2.9	3.4	4.9	4.1
France	2.1	0.6	0.8	-2.0	5.1	-0.5	3.1	0.6	1.2	4.1	3.6
Germany	1.1	3.2	-0.1	-1.2	-0.4	6.1	3.0	0.3	1.8	4.1	4.1
Italy	6.1	-0.3	2.2	0.9	2.4	-3.5	2.9	-0.7	-1.1	6.7	1.6
Japan	-0.1	4.0	1.2	5.5	8.4	-1.1	-1.6	4.3	8.3	-10.6	3.1
United Kingdom	1.5	1.9	2.3	2.3	1.5	2.3	2.8	3.3	3.3	4.1	3.6
United States	0.4	0.7	3.8	0.3	2.0	4.7	2.1	3.8	4.9	3.3	3.3
Total	0.9	1.8	2.2	1.4	3.6	2.3	1.5	3.0	4.6	0.2	3.3
					Unemployment rate[b, c]						
Canada	9.6	9.5	9.4	9.4	9.5	9.6	9.8	9.9	9.6	9.4	9.0
France	11.7	11.5	11.5	11.9	12.1	12.4	12.5	12.5	12.5	12.5	12.5
Germany	8.1	8.1	8.2	8.5	8.9	8.9	8.8	9.2	9.4	9.6	10.4
Italy	12.2	11.9	11.9	11.9	12.0	12.0	12.0	12.0	12.2	12.5	12.1
Japan	2.9	3.1	3.2	3.3	3.3	3.5	3.3	3.3	3.3	3.5	3.4
United Kingdom	8.7	8.8	8.8	8.6	8.4	8.3	8.2	7.9	7.5	7.3	7.0
United States	5.5	5.6	5.6	5.5	5.6	5.4	5.3	5.3	5.3	4.9	4.9
Total	6.7	6.7	6.8	6.8	6.9	6.9	6.8	6.8	6.8	6.7	6.7
					Growth of consumer prices[d]						
Canada	4.4	2.9	1.1	0.0	1.8	2.9	0.7	2.5	2.5	1.1	1.0
France	2.2	1.8	1.4	2.2	2.9	3.2	-1.1	1.8	2.1	0.7	0.9
Germany	3.2	2.1	1.7	0.0	2.5	2.1	1.4	-0.3	3.8	1.4	3.2
Italy	7.0	6.9	4.2	4.4	4.0	5.0	0.9	2.1	2.3	2.1	-0.5
Japan	-1.8	0.8	-0.8	-0.4	-1.1	3.0	-0.8	1.1	-1.1	8.9	-1.7
United Kingdom	3.5	7.4	1.0	0.7	2.0	5.5	0.7	2.3	2.3	5.3	4.1
United States	3.5	3.5	1.7	2.1	3.5	4.1	2.0	3.0	2.7	1.6	1.6
Total	2.3	3.0	1.2	1.3	2.1	3.7	0.8	2.0	1.8	3.5	0.9

Source:
UN/DESA, based on data of International Monetary Fund (IMF), Organisation for Economic Cooperation and Development (OECD) and national authorities.

[a] Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate (total is weighted average with weights being annual GDP valued at 1993 prices and exchange rates).

[b] As percentage of total labour force, from seasonally adjusted data as standardized by OECD.

[c] For some countries, third-quarter figure for 1997 is an estimate.

[d] Percentage change from preceding quarter, expressed at annual rate.

Table A.3. Developed economies: consumer price inflation, 1988-1998[a]
(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developed economies	3.1	4.3	4.9	4.3	3.2	2.7	2.3	2.3	2.2	2.0	2
Major industrialized countries	2.9	4.2	4.7	4.1	3.0	2.5	2.1	2.1	2.2	2.0	2
Canada	4.0	5.1	4.7	5.6	1.5	1.9	0.2	2.2	1.5	1.8	2
France	2.8	3.4	3.4	3.2	2.4	2.1	1.7	1.7	2.1	1.3	1¼
Germany	1.2	2.8	2.7	3.6	5.1	4.4	2.7	1.9	1.5	1.8	2
Italy	5.1	6.2	6.5	6.3	5.1	4.5	4.0	5.3	3.9	2.1	2½
Japan	0.7	2.2	3.1	3.3	1.7	1.2	0.7	-0.1	0.2	1.3	½
United Kingdom	4.8	7.8	9.5	5.9	3.7	1.6	2.5	3.4	2.5	2.9	3¼
United States	4.0	4.9	5.4	4.2	3.1	2.7	2.6	2.8	3.2	2.4	2½
Other industrialized countries	4.2	5.3	6.3	5.5	4.2	3.9	3.3	3.4	2.6	1.9	2½
Australia	7.3	7.5	7.3	3.2	1.0	1.8	1.9	4.7	2.6	0.6	3¼
Austria	1.9	2.5	3.3	3.3	4.1	3.6	3.0	2.3	1.8	1.6	2
Belgium	1.2	3.1	3.4	3.2	2.4	2.7	2.4	1.4	2.1	1.7	2
Demark	4.6	4.7	2.7	2.4	2.1	1.3	2.0	2.0	2.2	2.3	2½
Finland	5.1	6.6	6.2	4.1	2.6	2.2	1.1	0.9	0.6	1.1	2
Greece	13.5	13.8	20.3	19.5	15.8	14.5	10.9	8.9	8.2	5.8	5
Iceland	25.8	20.8	15.5	6.8	3.9	4.1	1.6	1.6	2.3	2.2	2½
Ireland	2.2	4.1	3.3	3.2	3.1	1.4	2.3	2.5	1.7	1.3	1½
Malta	0.9	0.8	3.0	2.5	1.7	4.1	4.2	4.0	2.6	2.8	3½
Netherlands	0.8	1.0	2.5	3.1	3.2	2.6	2.8	2.0	2.1	2.2	2¾
New Zealand	6.4	5.7	6.0	2.6	1.0	1.4	1.7	3.8	2.6	1.7	2
Norway	6.7	4.5	4.2	3.4	2.3	2.3	1.5	2.5	1.2	2.7	3¼
Portugal	9.5	12.6	13.4	11.4	8.9	6.8	4.9	4.1	3.2	2.3	2¾
Spain	4.8	6.8	6.7	5.9	6.0	4.6	4.8	4.6	3.6	2.0	2½
Sweden	5.7	6.5	10.5	9.3	2.3	4.7	2.2	2.5	0.5	0.8	2¼
Switzerland	1.9	3.2	5.4	5.8	4.1	3.4	0.8	1.8	0.9	0.6	1¼
Memo items:											
Western Europe	3.2	4.7	5.3	4.9	4.3	3.6	3.0	3.0	2.4	2.0	2¼
European Union (15)	3.2	4.8	5.3	4.9	4.4	3.6	3.0	3.0	2.5	2.0	2¼
Other	3.3	3.5	5.0	5.1	3.6	3.0	1.0	2.0	1.0	1.2	2

Source:
UN/DESA, based on data of IMF, *International Financial Statistics*.

[a] Data for country groups are weighted averages, where weights for each year are consumption expenditure for the year valued at 1993 prices and exchange rates.

[b] Preliminary estimates.

[c] Forecasts, partly based on Project LINK.

Table A.4. Developed economies: unemployment rates, 1988-1998[a]
(Percentage of total labour force)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developed economies	6.6	6.1	6.0	6.7	7.4	8.1	7.9	7.6	7.6	7.4	7
Major industrialized countries	6.1	5.7	5.6	6.3	6.8	7.2	7.1	6.8	6.8	6.7	6 ½
Canada	7.7	7.5	8.1	10.2	11.3	11.2	10.4	9.5	9.7	9.3	9
France	9.8	9.3	9.0	9.5	10.4	11.7	12.3	11.7	12.4	12.5	12 ¼
Germany[d]	6.2	5.6	4.9	4.2	4.6	7.9	8.4	8.2	8.9	9.6	9 ½
Italy	10.9	10.9	10.3	9.8	10.5	10.3	11.4	11.9	12.0	12.2	11 ¾
Japan	2.5	2.3	2.1	2.1	2.2	2.5	2.9	3.1	3.4	3.5	3 ½
United Kingdom	8.6	7.2	6.9	8.8	10.1	10.5	9.6	8.8	8.2	7.0	6 ¼
United States	5.4	5.2	5.5	6.8	7.3	6.9	6.1	5.6	5.4	5.0	4 ¾
Other industrialized countries	9.3	8.4	8.1	8.9	10.1	12.1	12.3	11.6	11.4	10.9	10 ½
Australia	7.2	6.1	6.9	9.5	10.7	10.8	9.7	8.5	8.6	8.5	8 ¼
Austria[e]	5.4	4.3	4.6	5.8	6.0	6.8	6.5	6.6	7.0	7.6	7 ½
Belgium	9.7	8.0	7.2	7.2	7.7	8.9	10.0	9.9	9.8	9.6	9 ¼
Denmark	8.6	9.3	9.6	10.5	11.2	10.1	8.2	7.2	6.9	6.3	6
Finland	4.5	3.4	3.4	7.5	13.0	17.9	17.4	16.2	15.3	14.4	12 ½
Greece[e]	7.7	7.5	7.0	7.7	8.7	9.7	9.6	10.0	10.3	10.0	9 ¾
Iceland[e]	0.6	1.6	1.8	1.4	3.1	4.4	4.8	5.0	4.4	4.6	4 ¼
Ireland	16.3	14.7	13.4	14.7	15.5	15.6	14.3	12.3	11.6	10.4	10
Luxembourg[e]	1.6	1.4	1.3	1.4	1.6	2.1	2.7	2.5	2.3	2.2	2 ¼
Malta[e]	4.0	3.7	3.8	3.6	4.0	4.5	4.0	3.6	3.7	4.4	4 ½
Netherlands	9.2	8.3	7.5	7.0	5.6	6.6	7.1	6.9	6.3	5.6	5
New Zealand	5.6	7.1	7.8	10.3	10.2	9.5	8.1	6.3	6.1	6.4	6 ¼
Norway	3.2	4.9	5.2	5.5	5.9	6.0	5.4	4.9	4.9	4.0	3 ¼
Portugal	5.7	5.0	4.6	4.1	4.1	5.7	7.0	7.3	7.3	7.0	7
Spain	19.1	16.9	15.9	16.0	18.1	22.8	24.1	22.9	22.1	20.6	20
Sweden	1.6	1.4	1.5	2.7	5.8	9.5	9.8	9.2	10.0	10.3	9 ½
Switzerland[e]	0.6	0.5	0.5	1.1	2.5	4.5	4.7	4.2	4.7	5.5	5 ¼
Memo items:											
Western Europe	9.1	8.3	7.7	8.0	8.9	10.7	11.0	10.6	10.8	10.6	10 ¼
European Union (15)	9.4	8.5	7.9	8.2	9.1	10.9	11.2	10.9	11.0	10.8	10 ½
Other	1.6	2.2	2.3	2.7	3.7	5.0	4.9	4.5	4.8	5.0	4 ½

Source:
UN/DESA, based on data of OECD.

[a] Unemployment data are standardized by OECD for comparability among other countries and over time, in conformity with the definitions of the International Labour Office (see OECD, *Standardized Unemployment Rates: Sources and Methods* (Paris, 1985))

[b] Preliminary estimates.

[c] Forecasts, partly based on Project LINK.

[d] Prior to January 1993, data referring to Western Germany only.

[e] Not standardized: national definitions and estimates used.

Table A.5. Economies in transition: rates of growth of real GDP, 1988-1998
(Annual percentage change[a])

	1988	1989	1990	1991	1992	1993	1994	1995	1996[b]	1997[b]	1998[c]
Economies in transition[d]	3.0	1.4	-6.1	♦- 8.1	-13.0	-9.2	-7.0	-1.1	-0.3	1.7	3¼
Central & Eastern Europe and Baltic States[d]					-12.6	-7.6	3.6	4.7	3.9	3.1	4½
Central & Eastern Europe[d]	1.1	0.2	-10.0	♦-11.3	-9.5	-5.7	4.0	4.9	3.9	3.0	4½
Albania	-1.5	9.9	-10.0	-28.0	-7.3	9.7	9.4	8.0	9.1	-10.0	2
Bulgaria	2.6	-1.9	-9.1	-11.8	-7.2	-1.5	1.8	2.1	-10.9	-5.6	3
Former Czechoslovakia	2.4	0.7	-1.5	-14.3	-6.6						
Czech Republic						0.5	2.7	4.8	4.1	1.4	3
Slovakia						-4.0	5.1	6.7	6.9	5.8	5½
Hungary	-0.1	0.7	-3.5	-11.7	-3.1	-0.6	2.9	1.5	1.3	3.6	3¾
Poland	4.1	0.2	-11.6	-7.0	2.7	3.8	5.3	6.9	6.0	5.8	5½
Romania	-0.5	-5.8	-5.6	-12.9	-8.8	1.6	3.9	7.1	4.1	-2.2	7½
Yugoslavia	-1.6	0.6									
Croatia			-7.5	-18.9	-2.0	-2.6	6.0	2.6	5.1	5.7	5½
Slovenia			-8.1	-8.9	-5.5	2.9	5.3	4.2	3.0	4.0	4
TFYR of Macedonia			-10.2	-7.0	-7.9	-9.1	-1.9	-1.2	0.7	4.0	4½
Fed. Rep. of Yugoslavia			-7.9	-11.6	-27.9	-30.8	2.7	3.8	4.4	1.0	2
Baltic States					-31.4	-22.3	0.2	2.1	3.5	4.6	5¼
Estonia					-14.1	-8.5	-1.8	4.2	4.1	6.0	6½
Latvia					-34.9	-14.9	0.8	-1.0	2.9	3.8	4½
Lithuania					-34.0	-30.3	0.8	2.9	3.6	4.5	5
Former Soviet Union	4.5	2.2	-3.1	-6.2							
Commonwealth of independent states					-13.4	-10.5	-15.3	-6.7	-4.9	-0.0	1¾
Armenia					-41.7	-8.8	5.4	6.9	5.8	6.0	7
Azerbaijan					-22.6	-23.1	-19.7	-11.7	1.1	5.5	7
Belarus					-9.6	-7.7	-12.6	-10.3	2.5	5.0	4
Georgia					-44.9	-29.3	8.8	3.2	11.3	10.0	9
Kazakstan					-5.3	-9.1	-12.7	-8.2	0.5	2.0	4
Kyrgyzstan					-13.9	-15.5	-20.1	-5.3	5.6	3.0	7
Republic of Moldova					-29.0	-1.2	-31.2	-1.8	-8.1	-2.0	3
Russian Federation					-14.5	-8.6	-12.8	-4.1	-5.5	0.5	1½
Tajikistan					-31.0	-17.4	-12.6	-12.5	-16.8	-4.0	2
Turkmenistan					35.7	1.4	-17.1	-10.0	0.1	-4.0	4
Ukraine					-9.9	-14.2	-22.8	-12.2	-10.0	-5.1	-1
Uzbekistan					-11.0	-2.3	-5.1	-1.2	1.6	3.2	5

Source:
UN/DESA and Economic Commission for Europe (ECE).

♦ Indicates discontinuity in the series.

[a] Country group aggregates are averages weighted by GDP in 1993 dollars; for methodology, see *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97/II.C.1 and corrigenda), statistical annex, introductory text.

[b] Partly estimated.

[c] Forecast.

[d] Including the former German Democratic Republic until 1990.

Table A.6. Developing countries: rates of growth of GDP, 1981-1998
(Annual percentage change)

	1981-1990	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
Developing countries [c] of which:	2.4	3.3	5.1	5.2	5.6	4.6	5.7	5.7	5
Africa	1.9	0.8	-0.3	-0.4	1.9	2.7	4.4	3.1	4
Latin America and the Caribbean	1.0	3.6	3.0	3.6	5.5	-0.1	3.7	5.2	3 ½
Western Asia	-2.2	-5.0	5.5	4.3	-0.9	4.1	4.8	5.9	4 ¾
Eastern and Southern Asia	7.2	6.9	7.8	7.9	8.6	8.2	7.4	6.5	6 ¼
Region excluding China of which:	6.6	6.2	5.6	5.9	7.0	7.3	6.5	5.2	4 ½
East Asia	7.1	7.2	6.0	6.5	7.6	7.6	6.6	5.2	4
South Asia	5.3	2.9	4.2	3.9	5.2	6.2	6.0	5.3	6
Memo items:									
Sub-Saharan Africa (Excluding Nigeria and South Africa)	1.7	-0.4	-1.1	-2.7	1.2	4.0	5.0	4.7	4 ¾
Least developed countries	2.1	-0.5	0.7	-0.8	1.7	4.7	4.9	4.7	4 ¾
15 Largest developing economies									
Argentina	-1.4	8.9	8.7	6.4	7.4	-4.6	4.4	7.8	4 ½
Brazil	1.5	0.9	-0.8	4.1	5.8	4.1	3.0	3.5	1
China	9.1	9.2	14.2	13.5	12.6	10.5	9.7	9.3	10
Hong Kong, China	6.7	5.1	6.3	6.1	5.3	4.7	4.8	5.5	4
India	5.3	2.0	4.0	3.9	5.4	6.7	6.4	5.8	6 ½
Indonesia	5.5	7.0	6.5	6.5	7.5	8.1	7.8	6.0	3 ½
Iran (Islamic Republic of)	2.8	6.0	6.0	2.6	1.8	4.2	5.0	3.5	2 ¼
Israel	2.8	6.2	6.6	3.4	6.6	7.1	4.5	2.0	2 ¾
Republic of Korea	9.1	9.1	5.1	5.8	8.6	8.9	7.1	6.0	3
Mexico	1.7	4.3	3.7	1.9	4.6	-6.2	5.1	6.8	5
Saudi Arabia	-2.9	6.0	3.0	1.6	-2.7	-0.2	4.0	2.4	1 ½
South Africa	1.5	-1.0	-2.2	1.3	2.7	3.4	3.1	2.0	3
Taiwan Province of China	7.9	7.6	6.8	6.3	6.5	6.1	5.6	6.0	5 ½
Thailand	7.8	8.5	7.8	8.3	8.7	8.6	6.4	-1.5	2
Turkey	4.3	0.8	5.0	8.1	-6.1	8.0	7.0	6.0	5

Source:
UN/DESA.

[a] Preliminary estimates.

[b] Forecasts, based in part on Project LINK.

[c] Covering countries that account for 98 per cent of the population of all developing countries.

Table A.7. Developing countries: Consumer price inflation, 1988-1998[a]
(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]	1998[c]
All developing countries	126.9	370.6	534.4	81.6	132.9	254.1	134.6	20.9	16.6	15.1	10¾
by region:											
Latin America	363.6	1128.6	1679.7	210.7	354.1	757.8	326.4	23.4	19.5	12.0	8¼
Africa	18.3	19.8	16.1	96.0	172.3	112.5	244.7	40.6	34.2	47.2	8¾
Western Asia	33.0	27.7	23.9	27.9	29.0	27.0	41.6	40.7	32.9	35.6	38½
Eastern and Southern Asia	6.3	5.9	14.8	9.5	7.2	5.7	7.1	6.8	6.2	5.7	6¾
China	18.8	18.0	3.2	3.3	6.4	14.7	24.1	17.1	8.3	4.3	5½
Memo items:											
Sub-Saharan Africa	24.5	25.7	22.8	283.3	532.6	342.4	780.3	87.1	87.1	136.0	11
Least developed countries	31.5	33.2	27.9	366.0	687.1	440.6	997.8	103.6	109.0	173.3	11¼

Source:
UN/DESA, based on IMF, *International Financial Statistics*.

[a] Weights used are GDP in 1993 dollars.

[b] Preliminary estimates based on data for part of the year.

[c] Forecast.

Table A.8. World trade: rates of growth of volumes, 1988-1998
(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[a]	1998[b]
World trade[c]	8.0	7.0	4.7	4.7	5.5	4.3	10.2	8.8	5.3	9.4	7
Volume of exports											
Developed market economies of which:	8.1	7.0	4.9	3.3	4.0	2.2	9.3	7.4	4.1	8.6	6½
North America	15.8	7.8	6.6	5.0	6.8	4.8	10.0	9.4	5.8	11.7	7½
Western Europe	6.2	7.4	4.2	2.4	3.4	♦2.2	10.6	7.5	3.9	6.7	6½
Japan	5.9	4.3	5.3	2.5	1.5	-2.4	1.7	3.3	0.7	11.6	2¾
Economies in transition	4.6	-1.4	-9.7	-18.4	8.2	..	..	..	..	..	..
Eastern Europe	4.3	-2.9	-6.2	-9.3	-0.1	..	..	..	..	..	..
Former USSR	4.9	0.1	-13.0	-27.7	19.1	..	..	..	..	..	..
Developing countries of which:	9.2	9.5	7.2	11.1	9.6	8.8	13.5	14.8	6.5	11.1	8½
Latin America and the Caribbean	7.5	4.6	5.1	4.7	6.3	10.3	9.2	9.9	9.3	12.9	9¼
Africa	2.7	8.0	6.9	2.3	1.0	1.8	4.6	7.8	9.4	6.6	6½
Western Asia	5.1	9.6	5.3	3.8	11.5	6.6	8.2	5.8	8.7	6.1	6
South and East Asia	12.8	11.6	7.4	16.0	10.7	10.6	14.6	18.2	5.8	10.7	8½
China	10.0	8.8	14.3	18.4	15.8	6.8	31.0	20.7	2.1	20.7	11
Fuel exporters	1.6	12.2	12.2	6.9	6.9	4.0	6.0	8.9	13.5	5.6	7½
Non-fuel exporters	9.2	9.6	6.4	13.0	10.9	8.7	14.9	18.3	5.1	12.7	9
Volume of imports											
Developed market economies of which:	7.3	7.0	4.5	2.6	4.4	1.5	10.9	7.5	4.7	9.2	6½
North America	5.1	4.3	1.3	-0.9	7.9	9.6	12.9	7.8	5.6	14.6	7¼
Western Europe	6.7	7.9	6.3	4.3	3.4	-2.9	9.2	6.3	4.2	6.6	6
Japan	17.9	7.9	5.7	4.0	-0.4	2.9	13.6	12.5	3.4	6.3	7
Economies in transition	-1.3	2.7	0.9	-5.6	-15.0	..	..	..	..	..	..
Eastern Europe	3.3	0.2	-8.8	2.4	5.8	..	..	..	..	..	..
Former USSR	-5.8	5.3	10.6	-12.2	-35.0	..	..	..	..	..	..
Developing countries of which:	11.9	7.7	4.6	15.8	12.8	15.1	9.5	9.0	8.3	10.9	7¾
Latin America and the Caribbean	9.6	4.9	9.4	20.8	22.5	10.8	14.4	4.2	8.4	20.3	10
Africa	6.0	0.5	3.5	-2.2	6.8	4.4	5.0	5.4	6.2	8.4	6½
West Asia	-3.7	-5.4	7.2	18.8	13.7	7.4	-12.5	9.1	10.4	3.8	6¾
South and East Asia	20.3	14.8	6.4	17.1	9.6	17.3	14.9	12.5	7.7	9.7	6
China	15.5	7.7	-16.1	21.5	23.2	36.4	9.1	0.0	11.2	14.5	15½
Fuel exporters	1.7	-1.5	6.9	21.0	14.1	4.3	-1.5	-3.2	11.7	16.1	8¼
Non-fuel exporters	13.9	11.1	3.0	15.1	12.8	19.2	12.0	11.5	8.0	10.2	7½

Source:
UN/DESA, based in part on data of the regional commissions of the United Nations and IMF.

♦ Indicates discontinuity in the series.

[a] Preliminary estimates.

[b] Forecast, based in part on Project LINK.

[c] Average of the growth rates of the volume of world exports and imports.

Table A.9. International prices of non-fuel commodities exported by developing countries, 1980-1997
(Annual percentage change [a])

		Food	Tropical beverages	Vegetable oil-seeds and oils	Agricultural raw materials	Minerals and metals	Combined index		Manufactured export prices[b]	Real prices of commodities[c]	Memo item: crude petroleum[d]
							Dollar	SDR			
1980		65.5	-6.3	-13.3	10.6	11.6	27.6	27.6	11.1	14.9	21.5
1981		-20.0	-17.8	-4.3	-12.5	-16.0	-17.0	-9.0	-6.0	-11.7	-3.5
1982		-31.8	-5.2	-19.6	-13.4	-13.2	-21.8	-16.4	-2.1	-20.1	-7.2
1983		5.3	4.3	18.9	6.8	7.6	6.3	9.8	-3.3	9.9	-10.3
1984		-15.9	14.6	34.6	0.9	-7.1	-3.4	0.0	-3.4	-0.0	-2.9
1985		-13.8	-9.1	-30.6	-9.9	-4.8	-12.3	-10.7	0.0	-12.3	-4.2
1986		10.0	24.0	-38.0	2.0	-5.0	4.0	-10.0	19.8	-13.2	-49.9
1987		6.4	-34.7	17.7	16.7	18.9	2.9	-6.7	12.6	-8.7	31.0
1988		29.9	1.2	31.5	8.4	45.1	26.2	21.4	8.2	16.6	-19.7
1989		5.9	-14.6	-11.5	0.0	0.0	0.0	4.9	-1.1	1.1	21.6
1990		-6.2	-11.4	-12.9	4.7	-9.8	-5.9	-11.2	9.9	-14.4	28.6
1991		-6.6	-8.1	8.1	-0.7	-9.5	-6.3	-7.4	0.0	-6.3	-16.4
1992		-2.1	-14.0	7.5	-3.7	-3.7	-3.4	-5.7	3.0	-6.2	-1.0
1993		0.7	6.1	0.0	-6.2	-14.7	-3.5	-2.4	-5.8	2.5	-11.4
1994		10.1	75.0	24.4	15.7	13.6	18.0	14.8	2.1	15.6	-4.9
1995		5.9	1.1	10.3	15.0	20.0	9.9	3.2	9.1	0.8	8.8
1996		6.8	-15.2	-4.2	-9.9	-12.7	-4.2	1.0	-1.9	-2.4	20.1
1997[e]		-5.3	34.7	-2.2	-9.7	1.6	-0.7	3.6	6.6	6.3	-2.2
1996	I	13.3	-22.6	-7.2	-9.6	-8.1	-1.6	2.7	0.9	-2.5	8.2
	II	14.4	-18.2	1.2	-14.3	-7.3	-0.7	7.2	-3.6	3.0	7.7
	III	4.5	-14.3	-4.8	-6.4	-20.3	-6.0	-1.4	-3.6	-2.5	27.1
	IV	-3.6	-5.5	-7.0	-10.0	-15.0	-7.5	-4.5	-4.5	-3.1	37.8
1997	I	-3.9	19.9	4.2	-9.3	-3.1	-2.3	0.0	-6.5	4.5	12.7
	II	-5.6	47.3	-3.7	-8.7	0.5	0.5	5.4	-5.7	6.5	-6.9
	III	-6.4	36.6	-6.9	-11.1	8.2	-0.2	5.6	-7.5	7.9	-11.2

Source:
United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin*; United Nations, *Monthly Bulletin of Statistics*; and *OPEC Statistical Bulletin*.

[a] For quarterly data, quarter shown is compared with same quarter of previous year.

[b] Index of developed countries manufactured export prices (1980 being base year until 1987 and 1990 the base year thereafter).

[c] Combined index of dollar commodity prices deflated by manufactured export price index.

[d] Organization of the Petroleum Exporting Countries (OPEC) basket of seven crude oils.

[e] Three quarters only.

Table A.10. Selected developed and developing economies: Real effective exchange rates[a], 1987-1997 (1990 = 100)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997[b]
Developed economies											
Canada	93.5	101.8	105.0	100.0	97.6	91.4	88.6	88.6	92.2	91.3	92.4
France	101.7	98.8	95.9	100.0	97.9	101.7	103.1	102.6	103.1	103.1	98.4
Germany	101.1	99.7	96.7	100.0	97.9	100.6	100.9	99.8	104.8	100.3	94.8
Italy	91.6	90.1	93.1	100.0	101.0	98.4	85.0	83.3	81.1	91.4	91.0
Japan	114.4	120.3	112.2	100.0	104.7	106.6	121.7	126.4	127.4	109.5	104.7
United Kingdom	93.4	100.2	98.2	100.0	102.9	99.9	91.6	92.5	89.7	92.4	106.3
United States	105.6	97.9	101.8	100.0	101.2	101.1	103.4	100.5	95.7	100.0	105.6
Developing economies											
Argentina	92.6	103.3	88.0	100.0	115.4	113.4	115.0	111.4	108.9	112.8	120.1
Brazil	61.3	67.0	82.7	100.0	80.4	73.1	82.2	94.2	100.2	98.5	104.3
Chile	105.8	98.6	101.9	100.0	106.1	113.8	113.9	113.9	120.2	126.4	135.2
Mexico	92.9	112.3	107.6	100.0	106.2	107.7	116.6	112.2	78.9	89.8	102.2
Venezuela	119.6	135.5	117.9	100.0	99.8	100.6	104.0	109.3	139.1	119.0	138.4
Hong Kong, China	91.9	93.1	98.1	100.0	103.5	106.2	111.6	114.5	112.9	120.9	130.7
Indonesia	103.7	101.8	102.8	100.0	100.9	99.6	101.5	100.3	98.7	103.2	99.1
Malaysia	118.7	106.1	103.5	100.0	98.8	106.4	109.5	106.3	106.1	111.0	110.4
Philippines	97.9	100.0	106.1	100.0	97.0	105.7	97.4	104.3	103.4	114.5	111.1
Republic of Korea	88.4	96.4	107.8	100.0	97.5	88.4	85.8	84.1	85.6	88.0	85.3
Singapore	90.7	90.1	95.5	100.0	102.5	105.2	106.1	109.2	110.2	114.8	116.9
Taiwan Province of China	96.9	100.5	107.0	100.0	97.4	96.0	92.8	91.1	91.6	89.9	91.1
Thailand	96.9	97.4	100.4	100.0	102.3	98.7	100.1	99.4	97.7	104.5	98.3
Turkey	84.3	87.2	95.4	100.0	97.1	89.1	92.6	72.8	75.6	74.2	78.0

Source:

Morgan Guaranty Trust Company, *World Financial Markets*.

[a] Measured against a broad currency basket of 22 OECD currencies and 23 developing economy currencies (mostly Asian and Latin American). The real effective exchange rate, which adjusts the nominal index for relative price changes, gauges the effect on international price competitiveness of the country's manufactures due to currency changes and inflation differentials. A rise in the index implies a fall in competitiveness and vice versa. The relative price changes are based on indices most closely measuring the prices of domestically produced finished manufactured goods, excluding food and energy, at the first stage of manufacturing. The weights for currency indices are derived from 1990 bilateral trade patterns of the corresponding countries.

[b] Data for 11 months only.